KATRINA REDEVELOPMENT TAX ISSUES

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

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KATRINA REDEVELOPMENT TAX ISSUES

TUESDAY, MARCH 13, 2007

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON OVERSIGHT,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:04 a.m., in room 1100, Longworth House Office Building, Hon. John Lewis (Chairman of the Subcommittee), presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON OVERSIGHT

FOR IMMEDIATE RELEASE CONTACT: (202) 225–5522
March 06, 2007
OV–2

Lewis Announces Hearing on Katrina Redevelopment Tax Issues

House Ways and Means Oversight Subcommittee Chairman John Lewis (D–GA), today announced that the Subcommittee on Oversight will hold a hearing on housing tax issues related to the redevelopment of the communities affected by the Katrina, Rita, and Wilma hurricanes. **The hearing will take place on Tuesday, March 13, 2007, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

FOCUS OF THE HEARING:

In response to the extensive damage caused by a series of hurricanes in 2005, the Congress enacted the Gulf Opportunity Zone Act (P.L. 109–135). This Act provided additional low-income housing tax credits for the states in the Katrina Gulf Opportunity (GO) Zone, the Rita GO Zone, and the Wilma GO Zone. The states in these zones are authorized to allocate additional dollar amounts for low-income housing projects that exceed the amount allowed under the Internal Revenue Code. Also, the Act provided special rules for low-income housing tax credits and mortgage revenue bonds used in the zones. The Subcommittee hearing will examine the obstacles to timely and appropriate redevelopment in these areas and discuss possible options for facilitating recovery.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "*110th Congress*" from the menu entitled, "*Committee Hearings*" (*http://waysandmeans.house.gov/Hearings.asp?congress=18*). Select the hearing for which you would like to submit, and click on the link entitled, "*Click here to provide a submission for the record*." Once you have followed the online instructions, completing all informational forms and clicking "*submit*" on the final page, an email will be sent to the address which you supply confirming your interest in providing a submission for the record. You ***MUST REPLY*** to the email and ***ATTACH*** your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business **Tuesday, March 27, 2007**. **Finally**, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee.

The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at *http://waysandmeans.house.gov*.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman LEWIS. Good morning. This is a hearing this morning of the Oversight Subcommittee of the Committee on Ways and Means.

I want to thank my friend and colleague, the Ranking Member, Mr. Ramstad of Minnesota, for being here.

Today, we will examine housing tax issues related to the redevelopment of communities struck by natural disaster. In the days and weeks immediately after Hurricane Katrina and Rita, I shed many tears along with the rest of America. The Federal Government's slow response to the devastation and human suffering of the Gulf Coast region was, and still is, a national disgrace.

The world watched as the richest and most powerful nation in the world seemed helpless to answer the needs of its own citizens. Men, women, children, the elderly, and the sick pleaded to be rescued. Hundreds of people died needlessly because of the Government's neglect. Many more were made homeless. That is not right. That is not fair. That is not just.

Hurricanes Katrina and Rita caused more damage than any other natural disaster in the history of the United States. Over one million residents, many who thought they were protected by the benefits of homeownership in Alabama, Louisiana, Mississippi, and Texas were left outdoors to fend for themselves.

Since Federal agencies have been unable to adequately support these citizens, Congress is using every possible means to step in and give our citizens some help. Adequate and affordable housing is a basic human right, especially to the American taxpayers who should be able to depend on the Federal Government for help in this disaster.

In 2005, this Government provided $15 billion in tax relief to victims of the hurricane and to businesses willing to jump start the

recovery effort. The Gulf Opportunity Zone Act of 2005 (P.L. 109–135) and the Katrina Emergency Tax Relief Act (P.L. 109–73) that preceded it provided critical tax relief in support of this most urgent national effort.

Two years later, it is clear that we must do more, particularly in the area of housing.

Current law provides tax incentives to build low-income rental housing that requires these homes be "placed in service" by 2008. One more year is not enough time. These projects need more room to serve the citizens affected by Hurricane Katrina and Rita. The testimony we will hear today will make the case for extending this due date, possibly through 2010. I wholeheartedly agree.

The special rules enacted to assist in the rehabilitation of severely damaged homes failed to consider the value of using mortgage revenue bonds to refinance existing loans—loans on homes that were totally destroyed. The testimony we will hear today will make the case for allowing mortgage revenue bonds to refinance homes that need to be rebuilt from scratch.

We need to make some tax law adjustments in order to start the hammers pounding and get the bricks and mortar laid. That is one way that this Committee can help ensure that the families affected by Hurricane Katrina can get back home. Justice delayed is justice denied. We cannot delay any longer. It is our duty. It is our mandate. It is our obligation. It is our responsibility as Members of Congress.

Now I am pleased to recognize the distinguished Ranking Member, my dear friend Mr. Ramstad, for his opening statement.

Mr. RAMSTAD. Thank you, Mr. Chairman. Thank you for holding this hearing on Katrina redevelopment tax issues. Also, thank you for your leadership, Mr. Chairman, on rebuilding low-income housing in the Gulf States.

As I have said many, many times, there is nobody in this Congress with more compassion for people in need than the distinguished Chairman of this Subcommittee. We thank you for that, Mr. Chairman.

All of us as Americans, all the world continues to see and feel the tragic consequences of Hurricanes Katrina, Wilma and Rita, which brought unspeakable carnage and the loss of hundreds of lives in the Gulf States. As we know, hundreds of thousands of people lost their homes as a result of these hurricanes and tens of thousands of affordable rental units were destroyed or severely damaged.

While we all know the Federal Emergency Management Agency (FEMA) dropped the ball miserably following the hurricanes, Congress acted quickly—that is, quickly for Congress, for the legislative branch—and decisively to help the people of the Gulf States with the challenge of rebuilding their lives. By the end of 2005, Congress had passed nearly $15 billion in tax cuts and incentives that were targeted to help the people of the hard-hit Gulf States.

This Committee did what it could within its jurisdiction to get as many people into new homes as fast as possible, including expanding low-income housing credits for units built by 2008 in Louisiana, Mississippi, Alabama, Florida and Texas. In fact, affected areas were given almost 10 times their general State allocation for

these credits. We certainly owe our two colleagues, Mr. Jefferson of Louisiana and Mr. McCrery of Louisiana, a great deal of credit for—I don't think anybody worked harder in a bipartisan, pragmatic way to get this done than our colleagues Mr. McCrery and Mr. Jefferson.

At the time, Congress imposed a 2008 deadline for a good reason. We did not want developers to unnecessarily drag their feet on rebuilding low-income housing for the hurricane victims. The pace of the recovery and the unanticipated obstacles now show, as the Chairman pointed out, that much more needs to be done. As we all know, many displaced victims of the hurricanes are still living in FEMA trailers while others await even those modest accommodations. This is simply unacceptable. This is simply wrong and must be corrected as fast as possible.

Today, we will hear from Louisiana and Mississippi housing agencies about some of the difficulties in getting the new facilities built. I know your testimony will be very, very helpful to this Committee. You have seen firsthand the devastation wrought by these storms. You have full knowledge of the barriers facing new construction.

I certainly, as does the Chairman, look forward to your testimony because we should consider an extension of the deadline if there are assurances that doing so will not delay the building of any new housing. I think we can all agree that we should not approve legislation that would delay the opening of one single low-income housing unit.

Once again, I thank my good friend, our distinguished Chairman, for holding this important hearing, for your leadership on this compelling issue. It really is, Mr. Chairman, a matter of basic justice and fairness to do what we can to help those who are still without homes, those who have lost so much.

Thank you, and I yield back.

Chairman LEWIS. Well, thank you very much, my friend Mr. Ramstad. Thank you for your statement.

Mr. Becerra, you don't have one?

Mr. BECERRA. I am fine, Mr. Chairman. I wish to welcome the witnesses and look forward to their testimony. I yield back.

Chairman LEWIS. Thank you very much for being here.

[The opening statement of Mr. Neal follows:]

Thank you, Mr. Chairman and Mr. Ramstad. I appreciate the opportunity to make a few comments today on the important issue of housing in the Gulf Zone. The Subcommittee that I chair, Select Revenue Measures, will be holding hearings soon on affordable housing opportunities, which can be hard to access in any part of the country.

This problem is surely most acute for the hardest hit regions of the Gulf Zone. We are fortunate to have the local housing administrators with us today to explain the progress in rebuilding after Katrina. We hear time and time again—that the economy in the Gulf Zone simply cannot recover without housing. Businessowners tell us their workers and their families need housing. And now we are reading that a second hurricane called "Hurricane FEMA" has swept in to take away some of the temporary housing provided to many Gulf Coast families.

It would be easy for us to assume that things are back to normal in the Gulf Zone. It would be easy for us to turn our attention to other matters and not talk about the problems in the Gulf Zone. But we must highlight these continuing problems and keep doing so until we get it right. Pope John Paul the Second once said, "Freedom consists not in doing what we like, but in having the right to do what we ought."

I want to commend you, Mr. Chairman, for doing what we ought to do, what we must do, until these American families can once again know the comfort of home.

Now we will hear from our witnesses. I ask that each of you limit your testimony to 5 minutes. Without objection, your entire statement will be included in the record. I will have all of the witnesses give their statements and then the Members will ask questions of the panel.

It is now my pleasure to introduce our first witness. Mr. Milton Bailey is the president of the Louisiana Housing Finance Agency. I believe he is joined by a longtime friend that I have not seen in many decades. As we would say in the South, I haven't seen you since Buck was a pup, Mr. Wayne Neveu of the counsel.

Mr. Bailey, welcome.

STATEMENT OF MILTON J. BAILEY, PRESIDENT, LOUISIANA HOUSING FINANCE AGENCY

Mr. BAILEY. Thank you very much, Mr. Chairman, and Members of the Committee on Ways and Means, Subcommittee on Oversight. I really appreciate this opportunity to present to you today.

With me is Mr. Wayne Woods, the Chairman of the Louisiana Housing Finance Agency (LHFA), a resident of New Orleans, and a victim of the hurricanes. He has a compelling story to tell today and he and his family are still digging out of the cataclysmic effects of Rita and Katrina.

Also with me is Brenda Evans, who is our program administrator. As the Chairman mentioned, Mr. Wayne Neveu, who is counsel to the LHFA.

I appreciate you allowing me to present testimony today on housing tax issues on behalf of the State of Louisiana and Governor Kathleen Babineaux Blanco related to the redevelopment of the Louisiana communities affected by Hurricanes Katrina and Rita.

As the Chair and the Vice Chair have made clear, Hurricane Katrina was by far the single most expensive disaster in American history, while Rita ranks third in the all-time disaster list. The magnitude of the infrastructure and socioeconomic damage has never been experienced by any other State. Together, the storms caused an estimated $100 billion in damages to homes, properties, businesses and infrastructure in Louisiana alone.

About $40 billion of these losses are covered by private hazard and flood insurance. The Governor and the citizens of Louisiana sincerely thank the Congress and the American people for their generosity and for the estimated 26 billion appropriated to the State to help rebuild homes and physical infrastructure. This kind of aid was unprecedented, but we are still faced with unprecedented challenges and need Congress's continued support.

Even with the $26 billion appropriation, there is a remaining gap of unrecovered losses of approximately 34 billion, which amounts to $20,000 in uncovered losses for every household in Louisiana. The funding gap does not just include the 127,000 jobs and 4,000 businesses in southeast Louisiana that have not come back. Which shrunk Louisiana's economy by $11.5 billion in 2006.

The magnitude of the housing, population and social service losses for the hurricanes is evidenced by a few statistics. I'll only focus on those relating to housing in the interests of time.

One hundred and twenty-three thousand homes in Louisiana were destroyed or suffered major damage. Eighty-two thousand rental properties were destroyed or suffered major damage. Of the total rental and ownership occupied units that are now uninhabitable, a substantial portion was occupied by low and modest income households.

Affordable housing in New Orleans is virtually nonexistent. With over 35 percent of the city's rental units either destroyed or severely damaged. Over 65 percent of the owner-occupied units that were damaged or destroyed in New Orleans belonged to low and moderate income families. Low to moderate income families in New Orleans rented 89 percent of the rental units that were damaged or destroyed.

An estimated total of 119,000 owner occupied and rental units in New Orleans serving low to moderate income population or 88.7 were damaged or destroyed.

At this point, I'd like to thank the Committee on Ways and Means and its majority and minority counsels for supporting amendments to the Internal Revenue Code to extend the placed-in-service deadlines in connection with developing affordable housing in the Gulf Opportunity (GO) Zone and Rita Zone to December 31, 2010, and simplifying the scope of bond financed qualified rehabilitation in the GO Zone and Rita Zone. These were the key provisions Governor Blanco asked the 110th Congress to consider during her visit to Washington last month.

There is one other item that we would like to include for the record. The matter deals with a technical amendment relating to the combined use of block grant funds and GO Zone tax credits. We would like the Committee to consider making it clear that emergency block grant funds appropriate to the State will be treated as normal or regular block grant funds pursuant to the 1989 authorization. This technical amendment will allow the Community Development Block Grant (CDBG) funds to be made available in the GO Zone and incorporated in tax credit transactions as project-based assistance without such funds being treated as either below market loans or Federal grants.

Mr. Chairman, the LHFA and its developer partners are diligently working to address significant changes, including sky-rocketing insurance premiums and rising construction costs. Notwithstanding the challenges that we've faced, we have been able to provide for the financing of roughly 17,000 units of affordable housing in the GO Zone. We have used our $170 million GO Zone tax credits, combined them with roughly $400 million of block grant funds, created a demand of $397 million and we are only able to forward allocate and fund all of our 2006, 2007 and 2008 tax credit projects up to a limit of $183 million.

Again, demand was at $397 million, our supply at $183 million. Our efforts will produce 17,000 units of affordable housing.

Tax credit investors and lenders are concerned about closing these projects in which—unless the credits that the 30 percent bump-up in credits are also pushed back from December 2008 to

December 2010. Developers have already invested significant amounts of time and money in getting these projects to the stage of development.

As Governor Blanco explained in her recent meetings with the congressional leadership, the 30 percent basis and the boost the placed-in-service date to 2010 for low-income housing tax credits will expedite the closing of those 17,000 units of affordable housing that are now ready to be closed.

Mr. Chairman, this concludes my oral remarks. I stand ready, along with my staff, to provide any follow-up questions that you may have.

[The prepared statement of Mr. Bailey follows:]

Statement of Milton Bailey, President, Louisiana Housing Finance Agency, Baton Rouge, Louisiana

Honorable Chairman John Lewis and distinguished members of Committee on Ways and Means Subcommittee on Oversight, my name is Milton J. Bailey, President of the Louisiana Housing Finance Agency. Thank you for allowing me to present testimony today on housing tax issues on behalf of the State of Louisiana and Governor Kathleen Babineaux Blanco related to the redevelopment of the Louisiana communities affected by Hurricanes Katrina and Rita.

First, permit me to share a few brief observations about the effects in Louisiana of the first and third most devastating and catastrophic disasters our country has ever faced, Katrina and Rita. Hurricane Katrina was by far the single most expensive disaster in American history while Hurricane Rita ranks third on the all-time list. The magnitude of the infrastructure and socio-economic damage has never been experienced by any other state. Together, the storms caused an estimated $100 billion dollars in damages to homes, property, businesses and infrastructure in Louisiana alone. About $40 billion dollars of these losses are covered by private hazard and flood insurance. The Governor and the citizens of Louisiana are sincerely thankful to Congress and the American people for their generosity and for the estimated $26 billion appropriated to the State to help rebuild homes and physical infrastructure. This kind of aid was unprecedented, but we are still facing unprecedented challenges and need Congress's continued support. Even with that appropriation, there is a remaining gap in un-recovered losses of approximately $34 billion . . . amounting to about $20,000 in un-recovered losses for every household in the Louisiana. This funding gap does not include the 127,000 jobs and 4,000 businesses in Southeast Louisiana that haven't come back, which shrunk Louisiana's economy by $11.5 billion in 2006.

The magnitude of the housing, population and social service losses caused by the hurricanes is evidenced by a few additional statistics:

HOUSING

- 123,000 homes in Louisiana were destroyed or suffered major damage.
- 82,000 rental properties were destroyed or suffered major damage.
- Of the total rental and owner occupied units that are now uninhabitable, a substantial portion was occupied by low income households.
- Affordable housing in New Orleans is virtually non-existent with over 35% of the City's rental units either destroyed or severely damaged by Katrina. Over 65% of the owner occupied units that were damaged or destroyed in the City of New Orleans belonged to low to moderate income families. Low to moderate income families in New Orleans rented 89% of the rental units that were damaged or destroyed. An estimated total of 119,770 owner occupied and rental units in New Orleans serving the low to moderate income population, or 88.7%, were damaged or destroyed.

POPULATION

- The population of Orleans Parish which was 455,000 in June 2005 had fallen to less than 200,000 in September 2006. Plaquemines Parish lost an estimated 25% of its population while St. Bernard decreased from 65,000 to 19,000 residents. By comparison, St. Tammany Parish north of the Lake and out of the direct path of the storms, gained 15,000 people and East Baton Rouge Parish had an influx of nearly 34,000 people.
- In mid-November 2006, 66,000 FEMA trailers remained occupied statewide, and 5,848 individuals remained on the FEMA waiting lists for temporary housing.

Louisiana citizens were displaced all over the state and country. Over 90,000 are in Texas and significant numbers in Mississippi, Georgia and Florida. In total, approximately 296,000 Louisiana residents were living outside of the State as of November 2006.

- The hurricanes displaced nearly 90,000 persons aged 65 and older, many of whom lived alone and had at least one disability. Displaced aged persons also were poor (an estimated 15%) and one quarter lacked vehicles.
- The child poverty rates in the areas most affected by the hurricanes were estimated by the Congressional Research Service (CRS) to be over 30%.

SOCIAL SERVICES AND HEALTH CARE

The non-profit sector accounted for 5.6% of the State's total workforce and 55% of all nonprofit jobs were in the heath care industry. 70% of these jobs were located in the parishes most devastated by the hurricanes.

Second, permit me to share the observations of our State officials about how the costs of responding to the catastrophic disasters of Katrina and Rita (which have been extraordinary at all levels of government) have been shared. Much of the damage experienced in Louisiana has been the result of the failure of Federal levees which should have held in the face of a Category 3 event like Katrina. In addition to disaster costs unrelated to Federal relief programs, the State has paid to date approximately $400 million to FEMA to match costs associated with FEMA's "Individual Assistance" program. For the State of Louisiana, the FEMA cost-share alone, even after being adjusted up to 90% Federal share for FEMA's Public Assistance program, remains over $1.5 billion. Given that Louisiana generates only about $8 billion in annual state tax revenues and has only 4.5 million residents, this match requirement further burdens Louisiana's recovery. Governor Blanco and the State of Louisiana requests the Administration and Congress support an adjustment of the Federal cost-share to 100% for all FEMA programs in the Katrina and Rita disaster areas. In addition to providing New York with 100% federal cost share after the tragedy of 9/11, there is ample precedence for FEMA approving a 100% federal cost share . . . 32 other disasters, including Hurricanes Hugo, Andrew and Iniki, received a similar 100% federal cost share. The case for moving to 100% cost share is compelling for Louisiana since the projected per capita impact of Hurricanes Katrina and Rita exceeds the costs of prior disasters by many multiples—$6,700 per capita or more than thirteen times that of any other disaster in U.S. history. Let me take this opportunity to applaud Senator Landrieu for her continued hard work on this issue and express our thanks and appreciation to House Majority Whip Clyburn for introducing the Hurricanes Katrina and Rita Federal Match Relief Act of 2007, which would grant Louisiana this waiver. We are hopeful Congress will move quickly and vote yes on this important legislation, thereby unleashing an estimated $775 million for local construction projects and enabling us to press the accelerator on our recovery.

Third, let me commend the work of the Ways and Means Committee in shaping a range of federal tax incentives in 2005 to facilitate housing and population recovery in the aftermath of Hurricanes Katrina and Rita. The Katrina Emergency Tax Relief Act of 2005 ("KETRA") and the Gulf Opportunity Zone Act of 2005 ("GOZA") provided a range of tools and resources to finance the first phase of housing recovery in Louisiana, for affordable rental housing and for affordable owner occupied housing. By designating the GO Zone, Rita Zone and Wilma Zone as a difficult development area, the Ways and Means Committee first recognized that the cost of developing affordable rental housing in the GO Zone and Rita Zone would increase dramatically. By providing additional housing credits ("GO Zone Credits") in an amount equal to $18 multiplied by the portion of the State population in the GO Zone as determined on the basis of the most recent census estimate of resident population released by the Bureau of Census before August 28, 2005, the Ways and Means Committee also recognized the magnitude of the population dislocation in the GO Zone and the importance of providing a stable source of credits to finance affordable and workforce housing in the GO Zone. By treating residences financed in the GO Zone and Rita Zone with the proceeds of qualified mortgage bonds as targeted area residences, the Ways and Means Committee recognized the importance of waiving the first-time homebuyer rule and increasing the family income limits for households qualified to benefit from low interest mortgages as such households purchased new principal residences to replace their prior principal residences damaged or destroyed by the hurricanes. By increasing the maximum amount of qualified renovation loans in the GO Zone or Rita Zones financed with the proceeds of qualified mortgage revenue bonds from $15,000 to $150,000, the Ways and Means Committee recognized that existing owner occupied housing suffered extensive damage and that the $15,000 limit was wholly inadequate.

Fourth, let me share with you the results achieved by the Louisiana Housing Finance Agency with the resources provided by KETRA and GOZA.

- Since the spring of 2006, the Louisiana Housing Finance Agency has issued $336 million of qualified mortgage revenue bonds to finance owner occupied residences throughout the State, of which $100 million were GO Zone Bonds for owner occupied residences exclusively in the GO Zone. This represents a four hundred eighty percent (480%) increase over the historical average of $70 million per year. Over 2,052 households have benefited from the State's low interest financing. Included in the last two issues is a pilot initiative to provide relief to low income home buyers from the increase in casualty and flood insurance premiums that deposits about $165 per month into the borrowers insurance escrow account for a portion of the increased insurance premiums.
- As of December 2006, one hundred percent (100%) of the 2006, 2007 and 2008 GO Zone Credits have been reserved by the Louisiana Housing Finance Agency to affordable housing developments in the GO Zone and one hundred percent of the State's 2006 credit ceiling has been reserved. Out of the 401 applications seeking approximately $397 million in credits, the Agency reserved over $183 million of credits to 240 developments that will produce 16,914 affordable housing units. These credit reservations went to developments that best meet the state's housing priorities as articulated in the Qualified Allocation Plans.

Significantly, the Louisiana Recovery Authority made $667 million in Community Development Block Grant funds available to applicants awarded tax credits from the LHFA. This "Piggyback Program" paired CDBG funds with LIHTC tax credits to make feasible mixed income development, deeply affordable units, and units for the elderly and disabled in permanent supportive housing. Thus far, $440 million in CDBG funds have been awarded to applicants under the Piggyback Program to assist 33 tax credit developments which will create 5,700 of the aforementioned units. In most cases, these mixed income developments will contain at least 60% market rate units and at least 20% deeply targeted units affordable to households earning less than 40% of the Area Median Income. In a few instances, most notably proposals for the redevelopment of public housing, a second mixed income model has been used in which at least 30% of the units will be market rate and no more than 33% will be deeply targeted units.

The Piggyback Program will also help special-needs populations achieve stable housing and successful lives by providing incentives for developers to create Permanent Supportive Housing (PSH) units. PSH households require rents affordable for households at 30% AMI down to zero income. All developments assisted with 2007 and 2008 GO Zone Credits must provide at least 5% of their units for Permanent Supportive Housing (PSH).

Fifth, permit me to thank the Ways and Committee and its majority and minority counsels for supporting amendments to the Internal Revenue Code to (1) extend placed-in-service deadlines in connection with developing affordable housing in the GO Zone and the Rita Zone to December 31, 2010 and (2) simplify the scope of qualified rehabilitation in the GO Zone and Rita Zone. This was one of the key priorities Governor Blanco asked the 110th Congress to consider during her visit to Washington last month.

The Louisiana Housing Finance Agency and its developer partners are diligently working to address significant challenges, including sky-rocketing insurance premiums and rising construction costs, which have delayed the progress of many developments reserved credits in December of 2006. Now, tax credit investors and lenders are concerned about closing affordable housing developments in which credits were reserved based upon a 30% basis boost that will evaporate if the development is not placed in service by the end of December 2008. Developers have already invested a significant amount of time and money in getting these projects to this stage. As Governor Blanco explained during her recent meetings with Congressional leadership, extending the 30% basis boost AND the placed in service date to December 2010 for all GO Zone LIHTC projects will expedite closings and allow developers the time necessary to complete these high priority and urgently needed affordable housing units. Without these extensions, our recovery will be set back.

The Louisiana Housing Finance Agency is also pleased that the rules for financing qualified rehabilitation in the GO Zone and Rita Zone with tax-exempt bonds will be simplified by the provisions of Section 2 of the proposed bill. Hurricanes Katrina and Rita did not distinguish between homes built 20 years or earlier and recently built homes. Measuring the percentage of outer and/or inner walls retained in connection with a home damaged in an area suffering a cataclysmic disaster is bureaucratic overkill and hinders population and economic recovery in an area suffering from a major disaster. In the aftermath of a major disaster, qualified rehabilitation

should only be based upon the expenditures for rehabilitation (25% or more of the mortgagor's adjusted basis) so that homeowners will be permitted to not only finance the required rehabilitation of their homes but also to refinance the existing mortgage indebtedness at the time the home was either damaged or destroyed by the major disaster.

Finally, permit me to cite several other provisions of the Internal Revenue Code relating to low income housing credits and qualified mortgage bonds that the Ways and Means Committee may wish to consider.

- *Per Capita Credits*: The magnitude of the rental property loss in Louisiana coupled with the substantial population shifts to areas outside the GO Zone require additional credits to address the need that pre-existed the twin disasters as well as the increased need post-disaster. For a five year period, the per capita credits in Louisiana should be doubled.
- *Income Limits*: Eliminate language in Section 1400N(a)(5)(B)(iii) disregarding subparagraph (A) in Section 143(f)(3) in connection with the use of GO Zone Bonds to finance owner-occupied residences in the Gulf Opportunity Zone. If an area is to be treated as a targeted area or area of chronic economic distress ("ACED") for a period of time following a major disaster, State and local authorities should have the flexibility of using tax-exempt bond resources to finance owner occupied homes that will accelerate population and economic recovery. This flexibility will be tempered by the retention of the purchase price limitations applicable in such targeted areas.
- *Ten Year Rule For Existing Buildings*: Waive the restriction on allocating credits to the acquisition costs of buildings in the GO Zone and Rita Zone for existing buildings until January 1, 2011. This waiver is particularly required in connection with bond financed projects that receive the so-called 4% credit in order to generate sufficient credits to complete necessary rehab in a cost effective manner.
- *Housing Credits for Mixed Income Housing*: Concentrating low-income households in dense developments should be avoided. In the redevelopment of disaster areas where population and economic recovery in a short period of time is extremely critical, credits should be used to redevelop or build new rental units that promote mixed incomes. Incentives for mixed income projects should be provided by increasing the numerator in the unit fraction and floor space fraction to include a limited number of market units for developments in the GO Zone, Rita Zone or Wilma Zone to provide the State flexibility of promoting mixed income housing until January 1, 2011.
- *Apply Special Rules under Section 42(i) to qualified residential rental projects under Section 142(d)*: The definitions and special rules under Section 42(i) for projects receiving low income housing credits from a State's credit ceiling should be available to projects receiving credits as a result of a bond financing under Section 142(d). These special rules under Section 42 that are not available under Section 142(d) include (a) permitting units designated as transitional housing for homeless to qualify as a low-income unit, (b) single-room occupancy units, (c) units occupied by certain students receiving assistance under Title IV of the Social Security Act or enrolled in a job training program receiving assistance under the Job Training Partnership Act or similar Federal, state or local laws and (d) units occupied by full time students if such students are single parents and such parents and children are not dependents of another individual.

Thank you, Mr. Chairman, for permitting me to provide these comments and recommendations.

Chairman LEWIS. Thank you very much, Mr. Bailey, for your statement.

Our next witness is from the Mississippi Home Corporation. I am pleased to welcome the Executive Director, Dianne Bolen. Thank you.

STATEMENT OF DIANNE BOLEN, EXECUTIVE DIRECTOR, MISSISSIPPI HOME CORPORATION

Ms. BOLEN. Thank you, Mr. Chairman, Representative Ramstad, and distinguished Members of the Subcommittee.

I want to thank you for the opportunity to appear before this Subcommittee to discuss tax issues related to the rebuilding of communities in the aftermath of Hurricane Katrina. I would ask that you enter my full written testimony as part of the record.

Chairman LEWIS. Without objection, it will be done.

Ms. BOLEN. Thank you.

The Mississippi Home Corporation is committed to rebuilding single family homes and affordable rental developments. To do so, Mississippi needs Congress to extend the housing credit relief it provided in the Gulf Opportunity Zone Act of 2005, to help us overcome unprecedented housing challenges in our State.

The corporation is utilizing the additional housing bonds and housing credits that Congress provided in the GO Zone Act. To date, we have issued 158 million in GO Zone bonds for single family homes. We have allocated 55 million in GO Zone credits. These 55 million in credits will fund 3,000 affordable rental units.

When the hurricane hit, Mississippi had approximately 8,500 units that were either destroyed or severely damaged. Developers are currently encountering many impediments to the affordable housing development. The cost of insurance has risen 280 percent. Some insurance companies are pulling out of the State. Cost of land has risen. Developments must conform to new elevations and the International Building Code. Infrastructure is an issue in some parts of the State. Local communities still have zoning and building code issues to address before developers can move forward. Shortage of labor is a big issue. This in turn leads to a higher cost of labor. Current conditions make it nearly impossible to develop housing credit properties in many areas under the two-year credit development cycle.

The Mississippi Home Corporation respectfully asks Congress to amend the GO Zone Act to allow all housing credit developments in the GO Zone to qualify for a 30 percent basis boost if placed in service by December 31, 2010. This 30 percent basis boost is necessary to offset the increased costs associated with rebuilding in a disaster area. Without the GO Zone Act's boost, which is set to expire December 31, 2008, developers cannot make their projects cash flow due to the high costs of rebuilding, combined with rent and income restrictions placed on credit developments. An extension of this relief through 2010 is crucial.

In addition, the Mississippi Home Corporation needs Congress to extend through December 31, 2010, the placed-in-service deadline for all credit developments that are allocated credits in 2006, 2007 and 2008 in the GO Zone area. This is necessary because developers in some areas of our State cannot meet the credit program's two calendar year deadline.

The Mississippi Home Corporation does have procedures in place to ensure developers complete housing credit properties in a timely manner. Developers will be monitored to ensure timely completion of their development and that any delays are genuine and unavoidable. It is the goal of Mississippi Home Corporation to have developments placed in service as soon as possible in order to get workforce that's needed on the Gulf Coast so that the rebuilding can continue.

Again, I would like to thank the Subcommittee for the opportunity to appear before you today.

[The prepared statement of Ms. Bolen follows:]

Statement of Dianne Bolen, Executive Director, Mississippi Home Corporation, Jackson, Mississippi

Mr. Chairman, Representative Ramstad, and Distinguished Members of the Subcommittee:

My name is Dianne Bolen, and I am the Executive Director of the Mississippi Home Corporation (MHC). MHC was created by the State of Mississippi as a nonprofit housing finance agency to provide the opportunity for safe, decent and affordable housing for low and moderate income Mississippians. MHC accomplishes this mission through federal, state and corporate housing programs.

Thank you for the opportunity to appear before this subcommittee to discuss tax issues related to the redevelopment of communities in the aftermath of Hurricane Katrina, which struck our State on August 29, 2005. The storm wrought significant devastation not only to Mississippi's Gulf Coast communities, but also throughout the southern half of the State. Many residents find themselves with homes having sustained significant damage or completely destroyed. A majority of these residents had no flood insurance.

Impediments to Development

Developers in Mississippi currently encounter many impediments to affordable housing development. The cost of insurance on the Gulf Coast greatly concerns all residents of Mississippi. Developers must pay higher insurance premiums for any development on the Gulf Coast, and this cost adversely affects the affordability of all housing. It is estimated that the cost of insurance has risen 280% since Hurricane Katrina, and some insurance companies plan to leave Mississippi altogether. With less competition between insurance companies, costs will not go down in the foreseeable future.

Developers find it difficult to find affordable land outside the FEMA proposed flood zones. Due to the short supply of land, the cost has increased, thereby increasing total development costs. New construction must now conform to new elevation standards and the International Building Code, which increases design and building costs. These costs particularly impact affordable housing developers, who cannot absorb these increases.

The lack of affordable housing on the Gulf Coast discourages the return of a workforce sufficient to complete the rebuilding process. This has led to a shortage of contractors and subcontractors in the area, which in turn leads to higher labor costs for skilled and unskilled labor. The lack of professionals such as city engineers, architects, and building inspectors make delays lengthy and often times unforeseeable.

The lack of infrastructure in many areas still limits the location of developments funded by GO Zone tax credits. While the larger communities on the Coast have largely rebuilt their infrastructure, the high land costs in these communities forces developers to search for available land in outlying areas that have not rebuilt their infrastructure sufficiently to sustain developments of 35 units or more. Most coastal communities still lack basic services such as fire/rescue and local police forces. The smaller medical facilities have not returned to their communities, forcing large segments of the population to rely on the larger functioning hospitals further away.

Local communities still have many zoning and building code issues to address before developers can move forward on their respective projects. When finally resolved, these important measures will govern where tax credit developments will be placed. In the meantime, developers must wait for the respective zoning boards and city councils to come to a consensus.

GO Zone Tax Credits

The Gulf Opportunity Zone Act provided Mississippi with an additional $106.2 million in Low Income Housing Tax Credits with which to replenish the State's rental housing stock lost to hurricane Katrina. It is estimated that as many as 8,500 affordable rental units were destroyed or severely damaged by the storm. These units housed the majority of the Mississippi Gulf Coast's workforce, and we cannot complete the rebuilding process without these families. To date, the Mississippi Home Corporation has allocated approximately $55 million of its GO Zone tax credits, approximately $35.4 million in 2006 and approximately $19.6 million in 2007. The $55 million tax credits will help fund over three thousand affordable housing units for families who earn at or below 60% of the area median income.

Immediately after the hurricane, Gulf Coast communities were not prepared to begin rebuilding. Katrina wiped entire communities off the map, and the cleanup process and rebuilding of infrastructure has taken some time. Only now are some communities ready to begin accepting developments.

As the population begins to return to the Gulf Coast, we must provide affordable workforce housing for the communities.

Difficult to Develop Areas

The GO Zone Act designated the 49 Mississippi counties eligible for FEMA individual and public assistance as Difficult to Develop Areas (DDA), which allows developers who receive GO Zone tax credits a 30% boost in eligible basis. This basis boost offsets the increased cost of building in the disaster area, which includes increased costs for labor, materials, land, and insurance. Without the boost provided by the DDA designation, developers cannot make their projects cash flow due to the high cost of rebuilding combined with the rent and income restrictions placed on developments funded with Low Income Housing Tax Credits. The GO Zone Act provides that the GO Zone shall be treated as DDA for properties placed in service by December 31, 2008.

It typically takes a tax credit developer 18 to 24 months from the time an allocation is received to reach placed in service status. MHC is authorized to allocate approximately $35.4 million annually in GO Zone tax credits for 2006, 2007 and 2008. If the GO Zone DDA designation expires on December 31, 2008, due to the current placed in service language, and HUD subsequently fails to designate the GO Zone counties as DDA, the developer will lose the 30% basis boost and be exposed to a risk in development cost. MHC expects this will discourage developers from applying for GO Zone tax credits in 2007 and 2008. MHC's last application cycle ended on March 9, 2007. The scoring of these applications is expected to take up to 120 days, which means developers would receive notification of their awards in July of 2007, leaving them only eighteen months in which to place their developments in service and receive the 30% basis boost provided by the DDA designation. This deadline would be difficult, if not impossible, under ideal circumstances, let alone in current conditions.

Proposed Extensions

The Mississippi Home Corporation respectfully asks Congress to extend the placed in service deadline for GO Zone tax credits to December 31, 2010. In addition, Congress should extend the GO Zone Act's Difficult to Develop Area designations from December 31, 2008 to December 31, 2010. These extensions will provide developers with valuable time to overcome the myriad delays listed above. Without the extension, increased costs and delays, both foreseeable and unforeseeable, would rob Mississippi of the benefit intended by the GO Zone Act's additions tax credit award. I have attached to my testimony a copy of a letter from Mississippi Governor Haley Barbour to Chairman Rangel and Congressman McCrery in which the Governor expresses his support for the extensions mentioned above.

MHC has measures in place to ensure developers complete tax credit properties in a timely manner. Developers will be monitored to ensure timely completion of their respective developments and that any delays are genuine and unavoidable. MHC continues to strive to provide affordable housing as soon as practically possible.

In summary, I would respectfully ask the subcommittee to remember that entire communities were leveled by Katrina. This requires a monumental act of rebuilding, taking into account many small pieces to an enormous puzzle. Affordable housing remains an integral part of that puzzle, without which we cannot rebuild sustainable Gulf Coast communities.

Again, I thank the Subcommittee for the opportunity to appear before you today.

February 28, 2007

Congressman Charles Rangel
Chairman, House Committee on Ways and Means
Congressman Jim McCrery
Ranking Member, House Committee on Ways and Means

The Gulf Opportunity Zone Act provides Mississippi with additional tax credits for 2006, 2007, and 2008. These additional tax credits will provide much needed housing for Gulf Coast residents in the form of affordable rental units.

The GO Zone legislation provides that properties financed by tax credits placed in service in the calendar years 2006, 2007, and 2008 will be treated as Difficult to Develop Areas (DDA), which provides a 30% boost in eligible basis for the properties. This boost in eligible basis provided by the DDA designation helps developers overcome increases in costs associated with development in the areas most affected by Hurricane Katrina.

The DDA designation for tax credit properties on Mississippi's Gulf Coast helps offset the increased costs of insurance, labor, and materials. Many insurance issues still wait to be resolved, and demand for labor outpaces the supply, thereby increasing the cost.

The DDA designation as written in the GO Zone legislation is set to expire on December 31, 2008. It generally takes a developer 18 to 24 months from allocation of tax credits to placed in service status under ideal conditions. The Go Zone deadline threatens to repeal the DDA status for any project not placed in service by December 31, 2008, thereby increasing the overall cost of development and reducing the affordability of the individual units. For developments receiving tax credits in 2007 and 2008, the fastest development timeline of 18 to 24 months still places the placed in service date outside the timeframe provided by the GO Zone legislation.

In addition, there is one additional item that I would place as the highest priority to be addressed immediately so that the investment in affordable housing in Mississippi is not curtailed:

To alleviate the pressures, I ask you to extend until December 31, 2010 the deadline for placing Low Income Housing Tax Credit developments in service, as well as the deadline for benefits to these housing developments available through the and GO Zone LIHTC Basis Boost.

This additional time would allow developers to overcome the increases in development cost while providing ample time to work with government agencies and local communities to provide affordable housing to areas of greatest need.

Sincerely,

Haley Barbour

Chairman LEWIS. Thank you very much, Ms. Bolen, for your statement. Thank you for taking the time to be here, you and Mr. Bailey.

Without objection, I would like to include two recent Washington Post articles in the record. One from February 21, 2007, called Mostly Black Mardi Gras Event Shows a City in Pain, and one from March 12, 2007, called We Called it Hurricane FEMA.

[The information follows:]

Mostly Black Mardi Gras Event Shows A City in Pain
'Under the Bridge,' Joy Masks Despair

By Peter Whoriskey
Washington Post Staff Writer
Wednesday, February 21, 2007; A03

NEW ORLEANS, Feb. 20—The Mardi Gras celebration that took place "under the bridge" today wasn't broadcast live on TV. It didn't appear on tourist brochures. Indeed, it hardly seemed to exist, to judge by the absence of attention.

But the predominantly African American tradition that goes on in the shadows of the Interstate 10 overpass draws more than 10,000 people, boasts its own proud and bizarre spectacles—Zulu warriors, brass bands and Day-Glo feathered Indians among them—and in its own separate reality offered a stark contrast to the hopeful hype that attended the more official, more publicized part of the city's Fat Tuesday.

Mayor C. Ray Nagin (D) and others touted the ample Mardi Gras crowds and packed hotels elsewhere in the city as a sign of New Orleans's vitality.

"This is what Mardi Gras is about is New Orleans—it's back, y'all, it's back!" he told a largely white Canal Street crowd to kick off the festivities.

But among those celebrating Under the Bridge, many noted the far smaller crowds in that area compared with pre-Katrina years, a product of the lingering devastation in African American neighborhoods. Moreover, people said, among those

who have returned, the sense of celebration often masked the personal hardships of post-Katrina New Orleans.

"All that other stuff—all that they're saying on TV about us coming back, about us rebuilding—it's just a front," said Bennie Pete, the tuba player and band leader for the Hot 8 Brass Band, a local institution, a few hours before taking the stage beneath the overpass. "It's terrible here. People are struggling. Just look around."

He pointed to the nearby Lafitte housing complex, which has been closed since the storm. Metal shutters cover the windows of hundreds of units to prevent residents from returning. Notices posted warn passersby that anyone entering could be fined or jailed. Within view, many other buildings have been similarly abandoned.

"People need places to live," he said. "Now ask yourself: Why can't they reopen that?"

For the day at least, people at Under the Bridge where hugging and dancing and watching the peculiar spectacles, intentional or not, that abounded.

Crawfish could be had for $4 a pound, turkey necks or pigs feet for $3; other cooks stirred roadside vats of gumbo. Brass bands, a local tradition, played. Men sporting bright feathers—a tradition supposedly started to honor the American Indians who once aided runaway slaves—roamed and periodically shimmied to the music. Members of the Zulu krewe, whose parade ends nearby, sashayed about, wearing Afro wigs and grass skirts.

Beneath the masks and costumes and smiles, however, lurked tales of post-Katrina dislocation and ongoing struggle.

Jack Humphrey, 58, a construction worker who had just finished parading with the Zulu krewe as a "walking warrior"—he was dressed in rabbit and cow skins, a grass skirt and a helmet affixed with bullhorns—lost his home. "It's been really rough," he said.

Blair Conerly, 33, a barber and Mardi Gras Indian, had to commute from Dallas, where he now lives.

Pete, the tuba player, comes in from neighboring Kenner because his home in the Ninth Ward was destroyed. Just a few months ago, in the midst of one of the city's crimes waves, a member of his band was shot and killed while driving with his wife and child.

Asked whether the hard-hit Ninth Ward would ever come back, Pete exhaled forcefully enough to billow his cheeks.

"If it ever does, it will be a really, really long time," he said. "The answer is, I really don't know."

The city is still half-empty, by most estimates, and the toll has been heaviest on black residents. The proportion of African Americans residing in the city is estimated to have slipped from nearly 70 percent before Katrina to about 55 percent now.

The Lower Ninth Ward remains almost desolate, with only a handful of trailers to signal any intention of residents returning. On some blocks nearest the canal-wall breaches, nearly all of the homes already have been torn down.

In New Orleans East, once a vast area of middle-class African Americans, there are just a few more trailers and a lingering wonder about whether the community will come back. On one typical block, only about four of 24 homes are occupied.

"We're pioneers out here," said Leroy Thomas III, a cable installer fixing up his New Orleans East home. "We don't really know what's going to happen here. But right now, I don't have time for Mardi Gras."

Even among those who have returned, the struggles in post-Katrina New Orleans have cut any appetite for celebration.

Ernest Penns, 74, a church deacon living in a Federal Emergency Management Agency trailer in a nearly deserted street in the Lower Ninth Ward, said he couldn't think about Mardi Gras now—at least until he could get back into his home or at least get the heater fixed in the trailer.

"There's no peace of mind for us yet," he said.

'We Called It Hurricane FEMA'
Trailer Park Was Quickly Emptied

By Peter Whoriskey
Washington Post Staff Writer
Monday, March 12, 2007; A01

HAMMOND, La.—Shortly after noon, FEMA agents began rapping on the trailer doors, their knocks resounding inside the tinny white homes. Everyone in the park, the agents announced without warning, would have to pack and leave within 48 hours.

Where do we go now?

Why?

What about school?

To the residents of the Yorkshire Mobile Home Park, all of them families displaced by Hurricane Katrina, the Federal Emergency Management Agency crews offered answers that were uncertain and sometimes contradictory. As residents spilled out of their homes to meet their similarly bewildered neighbors, the adults wondered where they would be sent next, and how far they might wind up from their jobs. Some began sobbing. Then the children, seeing their parents' tears, began crying, too. A woman fainted, and an ambulance came.

"It was like shock and awe," recalled Ron Harrell, 40, a tenant. "We called it Hurricane FEMA."

The Yorkshire residents were eventually scattered to other FEMA parks. But their sudden evacuation last weekend illustrates the upheavals that still accompany life in a government trailer park 18 months after the hurricane struck the Gulf Coast in August 2005.

About 12,000 households in Louisiana live in such settlements, temporary arrangements that only out of desperation are being stretched out indefinitely.

Almost all of the trailers' occupants were renters before the storm; unlike homeowners, they received no direct rebuilding assistance from the federal government. Some parks are rife with crime. Others are in isolated rural areas, far from schools and bus routes. Some trailers are in poor condition.

Park tenants are keenly aware that they are not particularly welcome where they have ended up. Fearing blight, many local communities have tried to block FEMA trailer parks, and several are trying to enact deadlines for the removal of trailers.

FEMA itself seems torn between closing the parks and serving the poor evacuees squeezed out by the scarcity of housing since the hurricane. Several times since Katrina, the agency has threatened to close the parks, only to grant an extension. Under the latest deadlines, tenants have until August to find other homes, but many seem unsure what they will do then.

"People say we shouldn't still be living in a FEMA park," said one former Yorkshire tenant, a Wal-Mart worker who wanted to be identified only as "P." "But take a look at the rents people have to pay in New Orleans now— who can afford that?"

The evacuation of Yorkshire March 3–4 had its roots in the three-way political and legal wrangling among the site's owners, local officials and FEMA. That tension is mirrored across Louisiana and Mississippi, where scores of trailer parks have opened since Katrina.

Before it was emptied, 58 families lived at the Yorkshire park. Their trailers were arranged on either side of a gravel road in a rural area about an hour north of New Orleans.

Under a contract initiated the month after Katrina, owners Frank Bonner and Ken Albin were to get $42,700 per month in rent from FEMA.

The residents began arriving about 6 weeks after the storm.

Eventually, some found jobs as aides for the elderly or the mentally retarded, some as workers at Wal-Mart, and some as housekeepers. Some are disabled. Many are single mothers.

The appearance of such parks in Tangipahoa Parish, as elsewhere, was not entirely welcome. For months, Tangipahoa officials sought to slow the growth of FEMA trailer camps. At one point, parish President Gordon Burgess called on Rep. Bobby Jindal (R–La.) to intervene with FEMA.

Trailers "were moved in the middle of the night," Burgess explained. "People woke up and they'd have a FEMA site next door."

At about the same time FEMA and the property owners were fighting over the terms of the contract, the owners clashed with the parish over approval for their trailer parks.

A newspaper article appears to have precipitated the mass evacuation. Two days before the evacuation, the Daily Star of Hammond published a story about the latest power outage at Yorkshire. It was the third in recent months, the newspaper reported, and it happened because the electric bill had not been paid.

Owners Bonner and Albin, who are responsible for the bill, which ran about $15,000 a month, blamed FEMA for not paying rent on time; FEMA officials have said they paid promptly after they were invoiced.

"Quite frankly, we received press earlier that week that pointed the finger at FEMA for not paying the bills. We were getting beaten up," said Jim Stark, director of FEMA's Louisiana Transitional Recovery Office. "At this point, we said, 'Enough is enough.' "

The park would be evacuated, and quickly, FEMA officials decided. Officials began telling tenants to pack up even before the agency had decided where they would go.

FEMA told residents and reporters that the people had to be moved for their own protection: The agency feared another power outage, officials said, and the trailer park's sewage system, which sometimes smelled, posed a health hazard.

But at the time of the evacuation, the power was on, the bill paid. State health officials deemed the sewage plant, for which the owners are responsible, free of violations, according to Brian Mistich, who oversees state inspections in the area. Although some complained of the stench from the plant, state officials said some odors from the facility are unavoidable—and legal.

In an interview Friday, Stark said he made the decision to vacate the park based largely on the possibility of more power outages. Although many residents said they were told they had to leave within 48 hours, Stark said it was not meant as a deadline.

"Could we have done a better job on this? Absolutely," he said. "We just wanted to be out of there."

Nearly all tenants interviewed said there was no reason to have moved, or at least no reason to have moved so suddenly.

Several tenants fought back tears last week as they explained why they would rather be back at Yorkshire. Even those who said the park did at times stink preferred it to their new location.

Shametha LaFrance and her five children were moved from Yorkshire into another FEMA mobile home, where, on the second day, the toilet backed up and the water stopped running.

Darcelin Turner, 49, was relocated to a trailer in Belle Chasse, more than an hour away. She commutes every morning to bring her children to their school in Hammond; she does not want to transfer them again.

Several others who moved to a site near the Hammond airport said that the new park is crime-ridden and that they would prefer to be back at Yorkshire. Out of fear, they said, they venture outside less and keep a close watch on their children.

"They took us from bad to worse," said Lekesha Vernon, 27, a mother of two, one of those moved to the site near the airport. "But when you have no other place to go, you have no choice."

The tenants said the sense of rootlessness that comes with the trailer life is affecting their children.

"I'm tired of tossing my kids around like a bouncing ball," LaFrance said. "And I hate waking up every day wondering what's going to happen next."

When she brought her 5-year-old to school last week, he would not let go of her and began crying.

He asked her: "Mama, are you going to be there when I get home?"

Chairman LEWIS. Both show the severe ongoing human suffering that still remains in Louisiana and all over the Gulf Coast. Neighborhoods in New Orleans remain abandoned aside from a few brave pioneers. Communities have not been rebuilt. People cannot return home and remain scattered around the southeast. Families are being bounced from trailer park to trailer park. Children who can't understand why they don't have a stable place to live are having emotional problems and are afraid that after school, even their temporary homes will have disappeared. Their whole world has turned upside down. These people are being treated with such a lack of respect for their human dignity.

I would like to ask the two of you, do you believe that some of the changes to the tax law that we have discussed will solve some of these problems? Do you think that we need to be doing more? What else do you need to get people into stable homes?

Mr. Bailey, Ms. Bolen?

Ms. BOLEN. Okay. Yes, I do.

One of the things the housing credit does is help in the rebuilding and get more affordable housing units on the ground. As I said, 8,500 units were either severely damaged or destroyed. By making

the changes that I requested, this would allow us a little more time to get those developments.

We would not provide the additional time if it was not needed.

Chairman LEWIS. Mr. Bailey.

Mr. BAILEY. Mr. Chairman, I appreciate that question because it gives us an opportunity to take a look at not only what the immediate need is, but we also have an opportunity to take a look at what the prospective need is. I think that once we, as policymakers, decide what the objective of affordable housing really is and mixed income communities really is, the next phase of development, both in Mississippi as well as Louisiana, has got to take into consideration what we are going to do down the road.

Now, with that having been said, allow me to offer these observations. When over 200,000 people are dislocated, they are dislocated all over the State, all over the United States, and they typically move into residences provided by family members, friends, and the like. The dislocation of 200,000 folks from the GO Zone has caused an in-migration problem for our other metropolitan areas throughout the State.

We have been using our per capita tax credits as well as our GO Zone tax credit to provide for the rehabitation of the GO Zone areas, but there was a preexisting need prior to Katrina that we are not able to fulfill with the resources that we currently have. The fact that GO Zone tax credits can only be used in the GO Zone, we are not addressing and must continue to address in the future how we are going to go about stabilizing those communities that have seen an influx in housing.

So we are recommending that the per capita tax credits be increased for a period of five years in the State of Louisiana to help right the affordable housing imbalance created as a result of outmigration from the GO Zone.

We are also recommending that the income limits, particularly as it relates to areas of chronic economic distress, that the States be given or provided flexibility in using tax-exempt bond resources to finance owner occupied homes that will accelerate population and economic recovery. There are several amendments to the Code that we would ask the Committee to consider.

There is also the matter of the 10-year rule for existing buildings. We are recommending that Congress consider waiving the 10-year rule covering existing buildings located in the GO Zone and Rita Zone until January 1, 2011. This change will permit the acquisition cost of a building to be included in the eligible basis in connection with bond financed projects that receive the so-called 4 percent credit.

The other is in the area of mixed income housing. I think that we can all agree that conventional wisdom recognizes that concentrating low-income households in dense developments should be avoided as a public policy matter. In the redevelopment of disaster areas where rapid population and economic recovery is essential, credit should be used to redevelop or build new rental units that promote mixed income communities and not provide for the reconcentrations of poverty and the reentrenchment of despair.

Incentives for the GO Zone, Wilma Zone and Rita Zone as it relates to mixed income projects should be provided. The States,

given the flexibility of promoting on a strategic basis the development of mixed income communities that include market rate units at least until 2011.

There's one more item, Mr. Chairman, that I would like to offer for consideration. That applies to the special rules under section 142(i) to qualified residential projects under 142(d). Now, the definitions and special rules under 142(i) for projects receiving low-income housing tax credits from a State's credit ceiling should also be available to projects receiving credits as a result of bond financing under 142(d).

There are special rules under the tax credit side of section 42 that will permit special needs populations to occupy low-income units that are not available under the bond financed side of 142(d). The special populations that, under the tax credit side, would be eligible for financing include financing for homeless persons, single-room occupancy, for certain students receiving Federal assistance under the Social Security Act or enrolled in job training programs receiving assistance, or full-time students with kids.

Those provisions are not embedded in the provisions of the bond financing authority. Those are the elements that we would recommend additional consideration be given to going forward, Mr. Chairman.

Chairman LEWIS. Thank you, Mr. Bailey. Thank you, Ms. Bolen, for your response.

Now I turn to the Ranking Member, Mr. Ramstad, for his questions.

Mr. RAMSTAD. Well, thank you, Mr. Chairman. Thank you to both the witnesses for your helpful testimony.

I want to ask you both, and both of you know well, at the end of 2005, we increased the per capita low-income housing tax credit from $1.90 per person to $18 per person in the GO Zone for properties that were built before the end of 2008. You alluded to that, Mr. Bailey, in your testimony.

The primary objective, as I think we all know, was to build housing as quickly as possible, to get it up fast for displaced residents who wanted to come home to Louisiana and Mississippi. The idea was to put a roof over these people's heads, not to maximize returns to investors in low-income housing projects.

The idea was to get housing built so these people had a roof over their heads, not to fatten the pockets of investors in such projects.

Now, my question is this to both of you. If the so-called placed-in-service deadline were extended so that developers had five years instead of three years to build housing, do we run a risk of actually encouraging delay in building housing? Can you give us any assurances that a two-year extension would not discourage the development of housing that otherwise would have been finished by the end of 2008? That's my concern.

Ms. Bolen, start with you, please?

Ms. BOLEN. We have procedures in place that say the development must be completed in two years, and we go out and monitor on a regular basis. We look at them when they first begin, we look at them at six months, and at 15 months, if they're not 50 percent complete in their construction, then we go to them and find out why. Of course, we've been talking to them all along.

Now, if it is something that is within their control, then we do not grant any type of extension. They still have to meet that two-year deadline, but if we come along and they're not 50 percent complete, we have a stiff monetary policy which gets those developers going, because money talks in their world and they do not like the penalties. So, they will keep the projects moving along and we will keep the procedures in place, because our goal is to get the housing done as quickly as possible.

Mr. RAMSTAD. That sounds to me like a pretty strong assurance. I appreciate that response.

Ms. BOLEN. You're welcome.

Mr. RAMSTAD. Mr. Bailey, please?

Mr. BAILEY. Mr. Chairman, I'd like to join my colleague's comments. We have embedded within our Quality Assurance Plan (QAP) very strict timing requirements. We have our regulatory monitoring responsibilities that we take very seriously.

We have gone so far as to make sure that, to the extent that there is any indication that those projects do not meet the time line as imposed within the QAP, that we have an opportunity to recover those tax credits and cycle them back through our projects that did not receive tax credits.

Mr. RAMSTAD. Well, not surprisingly, those were the responses I had hoped for and expected. You are doing your jobs well and we appreciate those assurances.

I also want to ask both witnesses another question. As you know, Congress declared the entire GO Zone a difficult to develop area as part of the December 2005 tax relief package. This, of course, gave a 30 percent bonus credit for low-income projects placed in service in the GO Zone. The bonus was intended to offset the increased costs of building these low-income housing units quickly. Again, to get them up, to get a roof over people's heads. They included paying premiums for materials, labor and insurance.

I note that you have asked for an extension of time to place these units in service, which you mentioned again here today. If we are going to extend the placed-in-service deadline through 2010, is a 30 percent bonus still needed? Is it still needed and would it make sense to only offer the bonus through the end of 2008, so we can maximize the number of units going up quickly? Or perhaps give less of a bonus the longer it takes to place housing in service, thereby creating an incentive to get the housing built quicker? How would you respond?

Ms. BOLEN. I would say the boost is definitely needed, especially in those areas that are along the Gulf Coast. One of the things that you do on a tax credit application is once—once they have completed a development, all the costs that that developer incurs from that development is certified by an independent third party. So, he only gets the boost in basis if he has actually incurred those increased costs.

I would say we definitely need it. We have procedures in place to ensure that the developer moves along in a timely fashion and completes the development in a two-year timeframe. We are just asking for some flexibility for those that might run into difficulty that is beyond their control.

Mr. RAMSTAD. Which I think makes eminently good sense.

Mr. Bailey.

Mr. BAILEY. I would agree. I would suggest that we keep it in place because the cleanup after a cataclysmic event that we are talking about now, just in being able to develop on pristine land takes 18 to 24 months. When you are talking about developing on land that has been contaminated and heaped with debris and you are talking about an absence of a workforce both in the construction supply, service, to build those facilities, then you are going to be paying a premium.

The purpose for which that premium was provided by the Congress, and we are grateful for that, is in recognition of those additional costs, but, as my colleague said, there are cost certifications at the end of the day that must be met. To the extent that we can recover some of that, yes.

It is imperative that those bonus points be included as we move forward in the extension.

Mr. RAMSTAD. Let me just conclude by saying you two have certainly reassured this Member in a very articulate way that flexibility is very much important and is very important and much needed. So, thank you again for being here today and for your helpful testimony.

Yield back.

Chairman LEWIS. Thank you very much, Mr. Ranking Member, for your question.

Now, I turn to Mr. Becerra of California for his questions.

Mr. BECERRA. Thank you, Mr. Chairman, and thank you for holding this hearing.

I thank the witnesses for being here. I am glad you are here. I hope you will continue to leave us additional information so you can make the case. I think many of us believe that this is 2 years too late and that we should have been on the ball from the very beginning. So, once again, to all the residents who stayed and who did everything they could to try to rebuild, please send along not only our congratulations but every measure of support that we can provide to make it possible for folks to return.

I keep hearing these messages that a lot of folks don't want to come back and that a lot of folks aren't interested in taking up some of the housing stock that might become available. I think that if folks knew that they had a chance to go back to a job and to a safe environment, they would be going back in droves. So we want to make it possible for folks to not only get their life back together but to do it the way they had it before.

I have a couple of questions. I think many of us here want to be as supportive as possible. You are the folks on the ground who know what you need to do, especially with regard to housing, but I want to make sure that none of the programs that we authorize are abused, because there will be another Katrina at some point, and hopefully the government will be more prepared to respond in a more direct and efficient way. We want to know that we can use these types of programs that we are now extending to folks in the affected areas by Katrina so we can do it again and do it better.

So, you, in essence, become the paradigm. If we end up finding there is an abuse of some of these tax benefits, then it makes it

tough in the future to believe that Congress will extend them to others.

So, my question to you is this, if we extend these tax benefits a bit more, whether it is under the Low Income Housing Tax Credit by extending the date on which the units become serviceable, or if we allow there to be some liberalization, continued liberalization on the mortgage revenue bonds, tell me what is being done to ensure that there is no abuse of the system?

For example, on mortgage revenue bonds, I don't know if this can happen or not, but my concern would be some developer, not low income, but some developer goes to someone who is low income and says, I can help you purchase a property, let us get it fixed, get a mortgage revenue bond, and then we will sell it and I will give you a cut of whatever we get, so you cause this flipping activity to perhaps occur, the speculation to occur in the real estate market, which ultimately hurts the folks we want to help most, the low-income folks who want to try to purchase homes. If all of a sudden, speculation causes prices to go up because you've got short-term developers going in there to try to make a profit, how can we make sure those types of abuses cannot occur?

Maybe it is already an existing law, or maybe there are certain things that are being done just through the oversight, but give us some sense of confidence that as we move to extend to you some of these tax benefits further, that we won't hear in a year or two or three later that the program was abused, which makes it tough in the future to extend these types of opportunities to other affected communities in the future.

Ms. BOLEN. On the mortgage revenue bond, a couple of neat features about that program is, of course, it waives the first-time home buyer and it targets a slightly higher income individual. Across the board, people lose their house, no matter what their income is.

The rate——

Mr. BECERRA. Ms. Bolen, do me a favor. Just focus on things that either you are doing through oversight or what you know exist in law so that we know what will prevent those types of abuses from occurring in the system.

If there aren't certain protections in the law that we need to have in place, let us know that as well. Perhaps as we move forward trying to extend these provisions, we include something.

I just want—I am not saying that anyone is abusing, taking wrong advantage of this. I am just asking, is it possible? If so, how can we prevent it?

Ms. BOLEN. I know when we look at the monthly reports from the service and lenders and one of the things you can look for is if they paid that loan off within a month or two. We have not seen that.

What remedies there are in the law to prevent someone from flipping, that I am unclear on.

Mr. BECERRA. Mr. Bailey, did you want to?

Mr. BAILEY. Yes, sir. There is protections under 143 of the Code.

Mr. BECERRA. One forty-three of the Tax Code?

Mr. BAILEY. Tax Code, as it relates to the use of mortgage revenue bonds for single family homeownership, that requires that an individual, when they purchase a home and they go to sell it, must sell it to another person of the same income category.

If they do not sell it to a person of the same income category, which would then allow them to pass on that benefit, then there is a recapture provision associated with that sale.

Mr. BECERRA. That lasts only for a certain amount of time? Afterward, the property is available on the open market?

Mr. BAILEY. That is correct. That would be roughly 5 years.

Mr. BECERRA. Mr. Chairman, I know my time has expired. So, I will conclude with this.

When we raise the limits, when we allow those who are more—I want to say they are better off. Right now, the mortgage revenue bonds are typically limited for those who are low income and whatever the income level is, but we are going to try to raise those caps because we know under these circumstances of Katrina, there are a lot of families that were affected who could easily fall into very low income because of the fact that they have now lost their home, for example.

Mr. BAILEY. That is correct.

Mr. BECERRA. So, you have liberalized the standards. So, you now allow a higher income, at least on paper, family to be able to use these mortgage revenue bonds.

Mr. BAILEY. That is correct.

Mr. BECERRA. They then turn them over, let us say they flip the property to somebody who has a higher income but qualifies under this special circumstances. Then all of a sudden, the time expires and now they get to sell. If it is just a flipping process that occurs, there may be—there is a chance of abuse.

So, I will close by saying this, Mr. Chairman. If we could just have the witnesses give it some thought, please provide to us anything that makes it clear to us that you have thought about whether there could be abuse of this program and how you either are preventing it, can't prevent it or provide us with some suggestions on what we can do in passing any extension to you that will have provisions that will prevent it.

So, I would like to make sure that in 3 years you are not coming back here and we are saying, so what happened.

Mr. BAILEY. I understand. I appreciate that. We can always go back to the shop and come up with some innovative ways, but I think that, if you take a look at the Tax Code and the penalties associated with abuses under that code, and the mechanisms that are in place to prevent those abuses, the type of monitoring that both her agency and mine are involved in, there has got to be a trace amount of instances where the abuses have escaped.

Mr. BECERRA. If we have got the protections in place, great. If they are being utilized and administered, great. That is what you can say.

I just want to make sure, you have been forewarned. In three or four years——

Mr. BAILEY. I appreciate that.

Mr. BECERRA. Just so that way we can feel confident that as we extend these provisions to you, it's not because a lot of folks who shouldn't have taken advantage did. Thank you very much.

Chairman LEWIS. I thank the gentleman from California for his questions and I am sure these distinguished Members of the panel would be guided by what you suggested. I think it can be most helpful.

I now recognize the young lady from the State of Ohio, Ms. Tubbs Jones.

Ms. TUBBS JONES. Mr. Chairman, thank you for hosting these hearings. It is an important issue for me and many people across the country.

I have had an opportunity to visit Louisiana and Mississippi since the terrible storm two or three times, trying to raise the awareness and attention of this country on the issue.

Also, Mr. Chairman, I want to thank you for calling me the young woman. I love it. I am going to keep talking to you on a daily basis.

When Katrina struck, I introduced legislation expanding the low-income housing tax credit in the affected region allowing for greater tax credits and benefits to be utilized so that more affordable housing could be built. That is why I was pleased to see in the Gulf Opportunity Zone Act that the Congress passed in '05, additional low-income housing tax credit for the affected States were provided.

Needless to say, as you have already said, our work is cut out for us, and we still need additional housing for low income folk. Although the additional low-income housing tax credits allocated have been effective, I would say that we need to do more.

I recently introduced H.R. 1043, the Community Restoration and Rehabilitation Act of 2007, which improves the existing historic preservation tax credit, reap credit, for the restoration and rehabilitation of underutilized historic buildings. Senator Mary Landrieu is a Senate co-sponsor.

The reap credit has been a great economic development tool throughout the country, including Louisiana and Mississippi. In New Orleans alone, the National Trust for Historic Preservation estimates that Katrina damaged more than 38,000 historic structures across the city's 29 districts registered as historic. The city's historic district encompassed half of its total area, the largest concentration of historic buildings in the United States.

Along Mississippi's 90-mile coastline, approximately 300 historic properties have been completely lost and another 1,200 remain that are mostly damaged. This includes historic districts like Bay St. Louis and Pass Christian.

So, there is an abundance of historic buildings in the region that can be rehabbed and turned into businesses or affordable housing. However, under the—as the tax code is written now, if a developer tries to combine both the rehab credit with the low-income housing tax credit in one project, for example, developing an historic site for affordable housing purposes, the tax benefits are decreased.

My tax legislation prevents this from happening and encourages projects to utilize both credits, increasing affordable housing.

Do you think allowing developers to combine both the rehab and low-income housing tax credit would assist you in your reconstruction efforts, Mr. Bailey, Ms. Bolen?

Mr. BAILEY. Without a doubt.

Ms. BOLEN. I definitely agree.

Ms. TUBBS JONES. Although I understand as the law is written now, the same negative effects occur when housing projects utilize both low-income housing tax credit and community development block grants. That is when you combine both Federal programs, you are forced to take a lower tax benefit. Which does not make sense, since we should encourage the full use of both programs.

How has this program affected you, if at all, Mr. Bailey, Ms. Bolen?

Ms. BOLEN. It hasn't. Our agency doesn't administer the community block grant fund, so I am not as familiar with the ins and outs. I do know that I have not seen any tax credit applications come through with community block grant funds. I know that is one of the reasons, is that it is reduced because it is a Federal subsidy.

I also know that there is a great need for it and if you have community block grant funds combined with the 9 percent credits, it would allow you to target even lower income individuals than you already are.

Ms. TUBBS JONES. Thank you. Mr. Bailey?

Mr. BAILEY. Yes, ma'am. You might have recalled from my earlier testimony that we have been successful in combining with our $183 million in tax credits roughly $450 million or so in block grant funds. That has been helpful, a very useful tool in terms of developing the 17,000 units of housing that will be going into the GO Zone.

As I also mentioned, there is a technical glitch associated with the use of those block grant funds that we would ask Congress to consider resolving. That has to do with being able to use those block grant funds or treat those block grant funds that were provided under the emergency relief effort as normal block grant funds under the '89 provisions.

Ms. TUBBS JONES. You're good, Mr. Bailey. I wouldn't be trying to speak over all these buzzers for anything in the world. Just a moment.

Now, okay. Go ahead.

Mr. BAILEY. Essentially, so that they would not be treated as a below market loan or a Federal grant for purposes. I think once you eliminate that glitch, then your objectives are achieved tremendously.

Ms. TUBBS JONES. Mr. Chairman, if you would allow me, I was in a meeting with Secretary of Housing Jackson and he said that you have housing units in New Orleans that people don't want to come back and use. Is that—I don't want to go into a war on this, but I found it hard to believe that people didn't want to come back and take advantage of opportunities.

Do you have housing units that nobody is using, sir?

Mr. BAILEY. Madam Chair, that is probably an issue that we need to really spend some time thinking about, in terms of public policy and housing policy in this country going forward.

Now, yes, there are units that people want to reoccupy. There is no question about it. The Housing Authority of New Orleans (HANO) is in the process of making those units available.

We have got to step away from the issue and ask ourselves a moral question. That is, do we want to recreate centers of poverty or do we expect to build within new communities opportunities that will give people hope, that will give people examples, living examples to live by and aspire to in their lives.

The reconcentration of poverty in public housing units without including the opportunity to develop mixed income communities, like we did very much here in Washington, D.C., under the HOPE 6 program, where we tore down public housing, gave public housing residents an opportunity to come back——

Chairman LEWIS. Do you have a HOPE 6 program?

Mr. BAILEY. Sir?

Ms. TUBBS JONES. Turn your mike on——

Chairman LEWIS. Do you have a HOPE 6 program?

Mr. BAILEY. Yes, sir. I was the former director of the Housing Finance Agency here in Washington, D.C. We participated in the financing of over eight HOPE 6 redevelopments.

Ms. TUBBS JONES. No, he was asking do you have HOPE 6 in New Orleans.

Mr. BAILEY. Yes, ma'am, we do. I apologize, but using the HOPE—my point being this. Using the HOPE 6 model in the reconfiguration, redevelopment of affordable housing for persons who are coming from public housing circumstances gives them an opportunity to repopulate the area within a more improved and holistic community, a community that builds within struggling communities the same social, economic and educational framework that exists in thriving communities.

So, as we think in terms of public policy, the future of public policy as it relates to housing, it is not just putting people back in their homes. It is thinking about what is the best way to achieve this in a holistic and supportive way.

Ms. TUBBS JONES. Mr. Chairman, I know my time is up, but if I could get a written response from both of you? One of the things in my travel to New Orleans, I just saw acres and acres and acres of housing that was gone. I wonder what is our strategy in terms of there needs to be water lines, sewer lines, electrical, the whole nine yards. Is there a strategy in place to address that issue as well?

Without doing that, we might as well—ain't nothing going to happen. There is not anything going to happen, excuse me.

I would be interested in hearing if there is a strategy, how we address the infrastructure of those communities that are devastated.

I thank you for your time, Mr. Chairman.

Chairman LEWIS. Thank you, the young lady from Ohio, Ms. Tubbs Jones, for your questions.

I recognize my friend and colleague, the gentleman from New Jersey, Mr. Pascrell.

Mr. PASCRELL. Thank you very much, Mr. Chairman.

I'm glad it took us to the end of the hearing to talk about HOPE 6. That model is excellent. It has worked, it worked in my district.

It is interesting that the President has tried to almost zero out these moneys. So, you have a lot of folks competing for the dollars that are shrinking.

HOPE 6 is a very important concept that I think would be tremendously useful in southeast Texas, Mississippi, Louisiana and Alabama. I think we should take a look at that, in terms of where do we get the biggest bang for our dollar.

Now, this hearing is not only about what has happened, but it's prospective. You both seem to indicate that the mortgage revenue bonds which are tax exempt—I love mortgage revenue bonds. I think a lot of good comes out of that for everybody. You want to make them available for substantial renovations, not just new housing. To refinance existing residential mortgages, particularly loans, mortgage loans.

Would you address that? I think this is an area that we need to take a real good look at. Rather than talking about new housing, substantial renovation to the housing that is existing, which is a better opportunity to keep people where they were and where they want to be.

Ms. BOLEN. I know that currently in Mississippi what we are seeing a lot of right now, I know that there is a rehab loan where Congress extended the dollar amount of that rehab. One of the obstacles was that the house had to be at least 25 years old. So, that product didn't really get used a lot.

We are seeing a lot of individuals that are something in and getting temporary financing through the bank. They might be using the Federal Housing Administration's (FHA) 203(k), which is a rehab loan. Then since it is short-term financing, then they are coming to us for a bond loan to take the short-term financing out, so they are staying in their existing homes.

Mr. PASCRELL. I think that should be a priority, shouldn't it?

Ms. BOLEN. Exactly.

Mr. PASCRELL. Mr. Bailey, do you agree with that?

Ms. BOLEN. I agree. The majority of people want to stay where they are.

Mr. PASCRELL. So, if that is the case, then we should expand legislation that is already on the books to include those homes that can be salvaged, but they will need major renovations. The tax-exempt bonds, mortgage bonds are an important part of doing that. Would you agree to that?

Ms. BOLEN. I would definitely agree with that.

Mr. PASCRELL. My next question is, if the placed-in-service date, if we extended that date to 2010, because you both spoke about that, how many more low-income rental housing units would be created? How many families would be provided housing? Have you planned this, if we can move to the next step?

Ms. BOLEN. I know we have done a very preliminary, cursory survey of where developers are. I know with the 2006 GO Zone credits, there are only one or two developments that seem to have some trouble that are on the Gulf Coast. 2007, there is one.

We are in our final cycle. We just took applications for about 51 million of '07, '08 GO Zone credits. We will complete the analysis of those applications in July, so that will only leave them an 18-month window to complete their development and in good times, 18

to 24 months is pretty normal, but these are not normal circumstances.

That 51 million would generate probably about 3,000 units of affordable rental units.

Mr. PASCRELL. How does that stand up against what is needed?

Ms. BOLEN. When you compare the 3,000 we funded, and the 3,000 we will fund in July 2007, you get 6,000 units, and totally the State had about 8,500 severely damaged or destroyed that we need to replace. So, there is a little gap there.

Mr. PASCRELL. Seventy-five percent, 80 percent of the way there?

Ms. BOLEN. Exactly.

Mr. PASCRELL. Mr. Bailey, what about your situation?

Mr. BAILEY. Our situation is a little bit more intense from this perspective, sir. We have forward allocated everything we have. All of our 2006, all of our 2007, all of our 2008 GO Zone tax credits. That will produce, provided that this Congress allows us to extend the placed-in-service date, 17,000 units of housing.

Without any more resources, we still have a need of 123,000 units of affordable housing.

Mr. PASCRELL. So, it is very different in Louisiana than it is in Mississippi with that regard, anyway. In that regard.

Mr. BAILEY. That is correct. So, it could be that we are going to be asking the Congress to consider, based upon what we already know we can deliver and will deliver, extra allocations of tax credits and funds to break even with what the existing demand is. That 17,000 is only 10 percent of the real need.

Mr. PASCRELL. Mr. Chairman, it would seem to me, and I am not convinced of this and maybe you could convince me, that both States that we are talking about here, and thank you for your testimony today, are both States, are each of these States committed to getting people back to where they want to be and where they came from? I don't know if that is the case, particularly in Louisiana with the tremendous gap between what we are doing and what needs to be done. Mississippi, although we are closer to our goal, obviously, you still are going to have specific needs.

Are you committed to getting people back to their original domicile?

Chairman LEWIS. Mr. Bailey and Ms. Bolen, can you convince this Member from New Jersey that you are committed, dedicated to the proposition that——

Mr. PASCRELL. I am sure they are committed. I don't know about their governors. That is what I am talking about.

Mr. BAILEY. I can assure you that Governor Blanco is absolutely committed, sir. So much so that she has been to Congress on several visits and she has made the case very clear.

I think though, sir, that what you have got to look at is what we have done, measure our commitment by what we have done. We don't have any more tax credits to allocate, sir. All of our tax credits——

Mr. PASCRELL. We hear you.

Mr. BAILEY. We still have 120,000 units of affordable housing to build. Yes, we are abundantly committed to this effort and would

like the Congress to consider providing us with additional resources.

Mr. PASCRELL. I am not trying to be facetious, but we have a long way to go here. We are going to be helpful. You can be assured of that.

Mr. BAILEY. Thank you, sir.

Mr. PASCRELL. That is our job, that is our responsibility. This is not free lunch here, but on the other hand we know what our responsibilities are. With the Chairman's sensitivities, we are going to get it done.

Thank you for your testimony this morning.

Chairman LEWIS. Mr. Bailey, I just want to inform my friend from New Jersey, I can hear the ads on the local radio from your governor, the road back home. Come home. Come home. There are a large number of people from New Orleans that are living in Atlanta. They're trying to get them to come home.

They have to have a place to live and a place—something to do, something to work. We must try to help.

Thank you very much for your question. Thank you very much.

Now we will hear from the gentleman from Massachusetts, Mr. Neal, the former mayor of Springfield. Mr. Pascrell is the former mayor of Paterson, right? So they have some knowledge of what to do with cities.

Mr. Neal.

Mr. NEAL. Thank you very much, Mr. Chairman. Just by way of note, my ears perked up when community development block grant moneys were being discussed, because it still remains the best tool that local officials have. You both nod your heads without looking at each other, and that would be universal whether it was a Republican mayor sitting there or a Democratic mayor. Those initiatives work.

Mr. BAILEY. Yes, they do.

Mr. NEAL. I know we have heard in previous testimony that the tax incentives that were outlined earlier may be reduced by other Federal subsidies. That is an area that my Subcommittee, the Subcommittee on Select Revenue Measures, plans to look into. We are going to view particularly how these tax incentives complement other Department of Housing and Urban Development (HUD) programs. So, I hope that we will have an opportunity to hear from you at the right moment. I certainly thank Mr. Lewis for proceeding in a timely manner on these issues.

Since you have just been through so much in administering these tax credits, can you explain what external factors have caused you to request an extension of the placed-in-service date, such as cleanup delays, and so forth, and the complications that have settled in because of it?

Ms. BOLEN. A lot has to do with permitting, zoning, lack of infrastructure in certain areas. Given the elevation requirements along the coast, you see more developments moving further inland to areas where there is no infrastructure, so they are having to place them and put the infrastructure in place.

Of course, the insurance costs. Finding an insurance company that is going to insure your development, just to name a few.

Mr. BAILEY. I would have to echo my colleague's observations. That is exactly right.

The only additional thing I would add would be the increased cost of labor supply, borne as a result of out-migration. You need to recapture your workforce in order to build the units.

Mr. NEAL. Much of that is skilled labor?

Mr. BAILEY. Sir, it is.

Ms. BOLEN. Unskilled.

Mr. NEAL. Unskilled labor as well.

Well, thank you both. I hope we will have a chance to talk more.

Ms. BOLEN. Thank you.

Mr. BAILEY. Thank you, Mr. Neal.

Chairman LEWIS. Thank you very much, Mr. Neal.

Let me just ask you, Mr. Bailey and Ms. Bolen, in New Orleans and also along the Gulf Coast of Mississippi, places like Biloxi, I guess Waveland, where there existed at one time, you have many historic properties, buildings that was on the National Register and others.

Do you think there should be something special, some type of special tax credit for historic places and buildings? Is there something that we can do to produce something very special?

Mr. BAILEY. Those antebellum homes are national treasures. To preserve a part of our legacy, a part of the American legacy, I think is tremendously important as well. Not just because they're pretty, but because they identify who we are as Americans. So, yes.

Chairman LEWIS. Ms. Bolen.

Ms. BOLEN. I would definitely agree with my colleague. You want to preserve your history, your heritage. Along the Mississippi Gulf Coast, a good many of our antebellum homes, especially the ones that lined Highway 90, which is right there on the beach, were totally wiped out. They had been there 100, 200 years. Anything that Congress can do to help restore the ones that are left would be greatly appreciated.

Chairman LEWIS. Do you have anything that would stand out, a particular home that existed or a particularly historic building, say in New Orleans or along the Gulf Coast? I've visited that area over the years and I know in New Orleans you had—is it a customhouse? What is that old building called?

Mr. BAILEY. Customhouse——

Chairman LEWIS. But it was not destroyed, it was not damaged?

Mr. BAILEY. It wasn't, but you have other communities in Louisiana that did have damage to the historic landmarks. To the extent that this Committee is considering or has influence to consider appropriations or allocations for restorations of national treasures, that should be considered.

Chairman LEWIS. I appreciate that.

Mr. Ramstad, did you have further questions or comments?

Mr. RAMSTAD. Thank you, Mr. Chairman.

Just a final question. Mr. Bailey, you cited in passing the need for the development of mixed income housing. Last year, Mr. Neal, who is a real expert in this subject, and I introduced a package of reforms. They were incorporated in H.R. 4873. That package of reforms would allow the low income housing tax credit to be used for mixed income developments as you recommended here today.

Could you just elaborate why this would be a useful tool, a useful reform?

Mr. BAILEY. Thank you, Mr. Chairman. I would.

I think that while this is a tremendous disaster, it is also a tremendous beginning. It is a tremendous beginning because it gives us an opportunity to think strategically and futuristically about what we want affordable housing to look like in America. So while there is a need to redevelop affordable housing instantly, it has got to be tempered with the need to develop affordable housing based on what the human dynamic is going forward.

HOPE 6 projects are a good example of what the future is. They take a modern day example of what works in thriving communities and applies it to struggling communities. Mixed income housing, the combination of mixed income housing and affordable housing tears down the barriers that have restricted individual growth, individual aspirations as a result of public housing. When you tear down those barriers, another Milton Bailey 20 years from now might be sitting in front of you providing testimony that would not have been given the opportunity but for the ability to integrate economically, socially and educationally our communities.

Mr. RAMSTAD. Well, let me just say I love your response and certainly agree with it. With somebody as capable and dynamic and knowledgeable as Mr. Neal chairing the Subcommittee on Select Revenue Measures, I am hopeful that we are going to move this bill. If we have a hearing, you would be the best possible witness. So, thank you, Mr. Bailey.

Mr. BAILEY. Thank you, sir.

Chairman LEWIS. Thank you, Mr. Ranking Member.

Mr. Neal, do you have any further comments?

Thank you very much.

Let me thank you for being here. I think your testimony has been very, very helpful to Members of the Committee and everything that you have said will be in the record and other Members will have an opportunity to view and hopefully we will be able to move some legislation out of this Committee to the full Committee and to the Floor of the House.

So, thank you for taking the time to come to Washington and to testify when you have so much work to do back in Louisiana and back on the Gulf Coast. So, we really appreciate your effort to be here and to testify.

Is there any other business to come before the Subcommittee? If not, there being no further business, this hearing is adjourned.

[Whereupon, at 11:16 a.m., the hearing was adjourned.]

[Questions submitted by the Members to the Witnesses follow:]

Question from Mr. Becerra to Mr. Bailey and Ms. Bolen

Question: Please provide suggestions for how to prevent abuse if the provisions are expanded (e.g., rebuilding properties and then flipping them).

Response from Ms. Bolen: Mississippi Home Corporation appreciates Congress' concern about potential abuse. MHC is committed to using the federal resources at its disposal to help Mississippians who would not have affordable homeownership or rental options without the Mortgage Revenue Bond (MRB) and Low Income Housing Tax Credit programs, and MHC takes its stewardship of these resources seriously.

In the MRB program, eligible home buyers receive below-market rate home loans, allowing low- and moderate-income families to save more of their income. Congress

established in 1988 the MRB recapture provision to discourage “flipping” and use by borrowers who could soon afford a conventional mortgage. Congress created the provision out of concern that upwardly mobile professionals were using MRBs to purchase homes even though their rising incomes would permit them to soon purchase homes conventionally.

The MRB recapture provision applies to borrowers who sell their MRB-financed residence within 9 years of the date the loan is made. The recapture amount is based on the number of years the loan is outstanding (0–9), the gain on sale, and the borrower’s income at the time of sale. The recapture amount cannot exceed 6.25 percent of the MRB loan or 50 percent of the gain realized on the sale if less. Treasury requires MRB borrowers subject to recapture to file IRS Form 8828.

For example, assume an MRB loan of $100,000 sold during the second year of the loan (40 percent holding period), at a gain of 20 percent ($20,000), and an increase in borrower income of at least $5,000 over the applicable income limit (as adjusted by a 5 percent annual inflation factor allowance). The recapture amount cannot exceed the lesser of $6,250 (6.25 percent of the tax-exempt financed loan) or $10,000 (50 percent of the gain). The recapture amount is then 40 percent (the holding period percentage) of $6,250 (the federal subsidy), which equals $2,500.

The recapture provision, as detailed above, forces the borrower to effectively repay the interest benefit received from using the MRB program. The negating of this benefit discourages borrowers from buying homes using the MRB program with the intention of selling them within the 9 year recapture period, thereby helping ensure that the bond proceeds are distributed to families who genuinely need the program.

Response from Mr. Bailey:

Louisiana Housing Finance Agency

KATHLEEN BABINEAUX BLANCO
GOVERNOR

MILTON J. BAILEY
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March 15, 2007

Congressman Xavier Becerra
Member
Committee on Ways and Means,
Subcommittee on Oversight
1119 Longworth House Office Building
Washington, DC 20515

Re: Oversight Hearing, March 13, 2007: Prevention of Mortgage Revenue Bond Abuses

Dear Congressman Becerra,

On behalf of Governor Kathleen Babineaux Blanco and the Board of Directors of the Louisiana Housing Finance Agency, I would like to thank you for participating in the oversight hearing concerning the recovery of affordable housing in the Gulf States. We appreciate your efforts on behalf of the citizens of Louisiana and encourage your continued support.

At the hearing, you asked that we provide you with recommendations regarding the ways and means by which Congress can guard against homeowner abuses of mortgage revenue bond financed properties. Outlined below is the Premise for single family mortgage revenue bond financing; Existing Safeguards; and, Additional Safeguards you may wish to consider:

Premise: Owner-occupied residences in the GO Zone, Rita Zone or the Wilma Zone are treated as targeted area residences, except that the provisions of Section 143(f)(3) are not applicable to such residences. Section 143(f)(3) permits one-third (1/3) of the proceeds of targeted area residence financing to be made available without regard to otherwise applicable income limitations. Section 143(k)(5)(B) permits the financing of qualified rehabilitation in the GO Zone, Rita Zone or Wilma Zone only if an existing residence is 20 years old as of the date rehabilitation begins and the rehabilitation retains a certain percentage of internal and external walls. Rapid population and economic recovery of areas devastated by major disasters, however, require expanded mortgage revenue bond financing authority, including the flexibility for States to use the provisions of Section 143(f)(3) to finance a broader band of household incomes and to finance substantial rehabilitation under Section 143(k)(5) of existing owner occupied residences without regard to age and wall retention measuring requirements. There is a concern, however, that existing provisions of Section 143 of the Internal Revenue Code may be insufficient to safeguard against certain abuses. Specifically, the financing of

owner-occupied residences throughout the GO Zone, Rita Zone or Wilma Zone with the proceeds of a qualified mortgage issue may result in the short term sale or "flipping" of such residences.

Existing Safeguards: Section 143 provides the following safeguards against the short term sale or flipping of residences financed with the proceeds qualified mortgage bonds in the GO Zone, Rita Zone and Wilma Zone:

- Principal Residence Requirements: The acquisition of a residence financed with the proceeds of qualified mortgage bonds must be the principal residence of the mortgagor pursuant to Section 143(c).

  Purchase Price Requirement: The purchase price of a residence financed with the proceeds of qualified mortgage bonds must satisfy the average purchase price requirements pursuant to Section 143(e); therefore, the amount of a loan that may be financed with the proceeds of qualified mortgage bonds is limited.

  Mortgage Assumptions: Section 142(i)(2) provides that any mortgage located in the GO Zone, Rita Zone or Wilma Zone financed with the proceeds of qualified mortgage bonds may be assumed only if (i) the residence becomes the principal residence of the purchaser, (ii) the purchase price of the residence satisfies the purchase price requirements in effect at the time of the mortgage assumption and (iii) the income requirements otherwise applicable under Section 143(f), without regard to the over income provisions of Section 143(f)(3)(A), are applied to the purchaser. Item (iii) effectively precludes the assumption of any mortgage financed with qualified mortgage revenue bonds by any over income purchaser. Items (i), (ii) and (iii) effectively mandate that any mortgagor assuming an existing mortgage financed with qualified mortgage revenue bonds satisfy the principal residence, purchase price and income requirements of Section 143.

- Recapture of Portion of Federal Subsidy: Any disposition by a taxpayer of an interest in a residence financed with the proceeds of a qualified mortgage revenue bond within ten years subjects the taxpayer to increased tax based upon a percentage of gain on the disposition of such residence in accordance with the provisions of Section 143(m). Section 143(m) provides a mechanism for the federal government to recapture a portion of the federal subsidy from a qualified mortgage financing if a mortgagor/taxpayer prematurely disposes of the taxpayer's interest in a mortgage financed with qualified mortgage revenue bonds.

Additional Safeguard May Be Accomplished By Increasing Recapture of Federal Subsidy Under Section 143(m): If existing safeguards in Section 143 are insufficient to protect against short term sales of properties initially purchased by over income mortgagors or properties rebuilt and financed with the proceeds of a qualified mortgage

issue, the Louisiana Housing Finance Agency recommends that Congress adjust the recapture provisions of Section 143(m) to increase the amount of the federal subsidy recaptured from a premature disposition of a taxpayer's interest in a residence in which there is or was any federally-subsidized indebtedness. The tax provided for under Section 143(m) may be increased either (i) by increasing the percentage of the gain (if any) on the disposition of such interest above the 50% referenced in Section 143(m)(1)(B) or (ii) by increasing the holding period percentages specified in Section 143(m)(4)(C) in the earliest years following the funding of a loan with the proceeds of qualified mortgage revenue bond.

I trust the foregoing addresses the concerns raised to your satisfaction. Please do not hesitate to call me on (225) 802-8859 if we can provide you with any additional information.

Sincerely,

Milton J. Bailey, President
Louisiana Housing Finance Agency

Cc The Honorable Kathleen Babineaux Blanco, Governor
The Honorable John Lewis, Chairman, Committee on Ways and Means, Subcommittee on Oversight
Board of Commissioners, Louisiana Housing Finance Agency

[Submissions for the Record follow:]

Statement of Alabama Housing Finance Authority, Montgomery, AL

Mr. Chairman, Representative Ramstad, and members of the Subcommittee, thank you for the opportunity to comment on issues regarding Katrina redevelopment.

As you know, H.R. 4440, the Gulf Opportunity Zone Act of 2005, among other things, allocated additional Low-Income Housing Tax Credits to Alabama to aid the 11 counties declared disaster areas in the wake of Hurricane Katrina. In addition, the legislation designated the GO Zone as a Difficult Development Area. The DDA designation allows a new construction development to receive a 30 percent increase in eligible basis to offset added costs. The cost savings conferred by the boost is passed on to the lower-income residents in the form of lower rents.

H.R. 4440 provides that DDA developments receiving the increased credits must be placed in service by December 31, 2008. This deadline should not be a problem for projects funded in 2006, but will prove inadequate for projects receiving credit awards in 2007 and 2008. While we understand Congress' intent to get units operational as quickly as possible, the shortened deadline will make construction in a demanding market unfeasible and will remove one of the primary incentives for building in this area—ultimately reducing the number of available affordable housing units.

The recommendation of the Alabama Housing Finance Authority is that the December 2008 deadline be amended to match existing IRS Code Section 42 regulations which state that a developer has two years from the time an allocation of Housing Credits is made to place in service. Developers awarded GO Zone Credits in 2007 and 2008 would then have until 2009 and 2010, respectively, to place their developments in service and maintain the 30 percent boost in basis.

Thank you for your attention.

Statement of the Honorable William J. Jefferson, a Representative in Congress from the State of Louisiana

I am extremely grateful to Chairman Lewis and the members of the Subcommittee on Oversight for the attention they are giving the matter of tax policy relating to the recovery of the Gulf Coast Region. Today's hearing on housing tax issues related to redevelopment of the communities affected by Hurricanes Katrina, Rita and Wilma is very important to the rebuilding and renewal of my region and my city, the great city of New Orleans and its surrounding communities.

Developers and homeowners in the Katrina, Rita and Wilma Go Zone areas face seemingly insurmountable challenges as they try to bring their homes and businesses back to the torn Gulf Coast region. Insurance premiums, building material prices and the value of land in the region have risen sharply increasing the cost of rental properties and homes. The increases have essentially made many of the properties in our area unaffordable.

Few needs are greater in the city and surrounding areas today than affordable housing. One New Orleanian, who currently resides in a FEMA trailer about an hour north of the city, surmises that many people want to move back to the city but after looking at the rent prices is quoted in *The Washington Post* as saying, "Who could afford that?"

Post-Katrina, the average rent in New Orleans has risen 70%. A standard $1000 per month apartment in August of 2005 would cost $1700 per month today. Prior to Katrina, New Orleans has a population of 437,000 residents. However, over one-year later, there are only 235,000 people living in the city. It is not because residents do not wish to return, it is because many cannot afford to return. The lack of affordable housing has caused not only a problem for residents wishing to return home but is also a problem for developers and investors in affordable housing. The lack of quality affordable housing that is sustainable discourages the return of a workforce to build and rebuild the community.

The Low Income Housing Tax Credits (LIHTC) is of great assistance in helping New Orleanians return home. The credits are given to qualified investors who are then put under the constant scrutiny of the state to insure quality affordable housing. The safeguards within the system provide for thirty years of high housing standards. Furthermore, there are provisions in this system that guarantee affordable housing for fifteen years. Here if the property does not do continue to meet the

criteria it specified when receiving the tax credit award, the IRS will recapture the tax credits.

In December 2005, Congress passed the Gulf Opportunity Zone Act (the GO Zone Act) and, among other much-needed tax incentives, it included a significant increase in Housing Credits for the Gulf states, and a 130% "basis boost" in which they treated all regions of the GO Zone as Difficult to Develop Areas, thus allowing them more funding for the rebuilding. New Orleans and the Gulf Coast region face many obstacles for redevelopment. However, as legislators we can ease the process and strain on those trying to make a difference by extending deadlines for the GO Zone Act of 2005. By extending the placed in service deadline for both the credits and for the treatment as Difficult to Develop Areas, we would effectively give the people in these communities a reasonable time to reinvest in their communities. The Low Income Housing Tax Credit has a history of success in the Gulf Region and throughout the Country. It is imperative that we as legislators vote to extend the placed in service deadlines to help with the rebuilding efforts and allow the citizens of the Gulf region return home.

A further issue with the additional low income housing tax credit authority is that as written they would be treated under Code Section 42 as federally sourced financing and not covered by Community Development Block Grants (CDBG) financing exception. Instead of receiving a 9% credit for LIHTC projects, investors would only receive 4%. In effect, this would cut down the amount of money available for project financing and the number of projects for the areas it is intended to benefit.

It is necessary to clarify how Katrina CDBG Funds are treated as such under Code Section 42(i)(2)(D), that the funds are not classified as below-market federally sourced financing. The Authorizing Acts specifically allow waivers and alternative requirements only in such provision are not inconsistent with the overall purpose of CDBG statutes.

Finally, Mortgage Revenue Bonds (MRB) have provided over 3.5 million lower-income American with affordable homeownership and another one million with rental housing opportunities. Every year, 100,000 families buy their first homes with MRB mortgages. These bonds are typically for first time home buyers but there is a provision in GO Zone legislation that waives this requirement for those who's homes were damaged by the hurricanes. This would assist with the rebuilding efforts, allowing these bonds to go towards refinancing home loans.

Homeowners in the region would be allowed to refinance at a lower interest rate. There could be two possible results from this. The lower interest rate puts more money in the pockets of the homeowner and the homeowner could use this money to improve his monthly cash flow. The other option would be to refinance the home using the equity in it to take care of other expenses or to rebuild the home. Both bring greater cash flows to the homeowner that could be used to help spur economic development.

Immediately following the hurricanes, the affected communities were not prepared to rebuild. Entire areas were damaged so severely that it effectively changed the landscape of the area. Only now are some areas ready to begin redevelopment. We need to do everything we can to facilitate rebuilding. I respectfully ask the Committee pass legislation that would 1) extend the placed-in-service deadlines for the GO Zone Housing Tax Credits; 2) extend the placed-in-service deadline for the Difficult to Develop Area designation; 3) clarify that the use of CDBG funds will not reduce the allowable credit rate from 9% to 4%; and 4) allow the use of MRBs for rehabilitation of property suffering more than 25% damage, even if the property has not been in existence a minimum of 20 years.

Statement of Kristina C. Cook,
National Affordable Housing Management Association, Alexandria, Virginia

Thank you, Chairman Lewis and Ranking Member Ramstad for this opportunity to present the views of National Affordable Housing Management Association (NAHMA).

NAHMA represents individuals involved with the management of privately-owned affordable multifamily housing regulated by the U.S. Department of Housing and Urban Development (HUD), the U.S. Rural Housing Service (RHS), the U.S. Internal Revenue Service (IRS), and state housing finance agencies. Our members provide quality affordable housing to more than two million Americans with very low and moderate incomes. Executives of property management companies, owners of affordable rental housing, public agencies and vendors that serve the affordable housing industry constitute NAHMA's membership.

Affordable rental housing is a cornerstone of redevelopment efforts in the Gulf Coast region. It is imperative to rebuild affordable multifamily housing for evacuees who wish to return home. Likewise, affordable rental properties, especially Low Income Housing Tax Credit (LIHTC) developments, provide essential workforce housing.

With these principals in mind, NAHMA respectfully requests extensions of two key LIHTC-related deadlines. NAHMA concurs with testimony the Subcommittee has received about the necessity of extending the placed-in-service date for the GO Zone LIHTC properties to December 31, 2010. Even under the best of circumstances, there is no "perfect" development deal. With the many challenges that remain in the Gulf Coast, our members are concerned that failure to extend this deadline would be detrimental to rebuilding efforts. Another important deadline that should be extended is the temporary grace period against recapture of LIHTC credits, which was provided in the IRS Rev. Proc. 95–28 for Section 42 properties in major disaster areas affected by Hurricanes Katrina, Rita and Wilma. A number of our members with properties in the Gulf Coast have voiced concerns that the 24-month temporary relief from recapture and loss of credit provided in Rev. Proc. 95–28 section 7.01 may not allow sufficient time to bring low-income units back online. We respectfully request that this relief be extended to 48 months, with an option for the IRS to provide additional extensions upon expiration. Although the IRS has the authority to extend this deadline, our members believe it is in the public interest to include this extension as a component of hurricane relief legislation.

Thank again you for allowing me to share NAHMA's position on these important issues. Our members remain committed to providing quality affordable housing in the Gulf Coast and across the nation.

Statement of OMB Watch

OMB Watch, a nonpartisan government watchdog that promotes responsible and equitable fiscal policy, has investigated the IRS's private debt collection program, and concluded that it is demonstrably wasteful, puts taxpayer privacy rights in jeopardy, and has fostered illicit activities by private companies. We believe the program should be ended.

The IRS private tax collection program is not fiscally sound. Taxpayer money is being used to pay private companies 21 to 24 cents for every dollar they collect, while IRS employees could do the same job for 3 cents on the dollar. Former IRS Commissioner Charles Rossotti told the IRS Oversight Board in 2002 that assigning more revenue agents to debt collections could see a return of $30 to every $1 invested. Indeed, the wastefulness of the program is not disputed. In testimony to Congress, IRS Commissioner Mark Everson has repeatedly admitted that IRS employees could perform this work at far less cost than private collection agencies.

Nina Olson, the head of the Office of Taxpayer Advocate, which operates independently from the IRS and recommends changes in the tax collection system, has made ending the private collection program a top priority for the year. She has said in testimony to Congress that the tax collection program may become "vastly more expensive than we ever imagined," since it requires significant investments in IRS oversight and management personnel.

In point of fact, the IRS administered a pilot private tax collection program in 1996 that failed to produce a return on investment. Contractors did not bring in nearly as much money as projected, and the program amounted to a $17 million net loss for the government. As a result, a follow-up tax collection program was canceled.

The IRS private tax collection program also lacks safeguards for taxpayer privacy—and will allow the IRS to hand over personal information of 2.5 million taxpayers to private companies. The 1996 experience regarding the tax collection pilot program raised concerns over privacy and taxpayer abuse. A 1997 IRS Internal Audit Report found that contractors engaged in behavior prohibited by the Fair Debt Collection Practices Act, and did not protect the security of sensitive taxpayer information. Ms. Olson, the National Taxpayer Advocate, has expressed concern that the IRS has not set up sufficient safeguards to prevent the same experience from being repeated under the current program. According to Ms. Olson, private collectors have opportunity to use "trickery, device, and belated Fair Debt Collection Practices Act warnings to take advantage of taxpayers," and yet they are not obligated to disclose their "operational plans" regarding practices, letters, or scripts they will use.

The IRS private tax collection program was enacted under circumstances that gave unfair and wasteful advantages to contract bidders. The most important terms of the private collection contracts—commission rates by which contractors are paid for their services—were never put up for competition. The IRS set commission rates at 21 to 24 percent of the revenue collected by contractors, denying bidders an opportunity to make offers on terms that would have resulted in the IRS getting a greater share of the collected revenue. Consequently, two of the companies who lost their bid for the contract filed complaints with GAO over the contract competition. GAO has also reported that the IRS did not established a mechanism by which it could evaluate the cost-effectiveness of the program, or a mechanism for incorporating lessons learned during the program's first phase.

Illicit conduct by one of the private collection agencies IRS contracted with raises questions about the integrity of the private tax collection program. A 2006 New York Times article reported that one of the winning bidders—Linebarger Goggan Blair & Sampson—had a former partner sent to jail for bribing the San Antonio municipal government in exchange for debt collection contracts. In addition, a Linebarger competitor is now suing the city of Brownsville, TX, charging that the municipal government gave a debt collection contract to Linebarger in exchange for campaign contributions to city commissioners. Linebarger has reportedly been forced to give up the IRS contract to collect federal debts, but for reasons that the IRS has not disclosed.

For these reasons, we believe that this program should be terminated.

Statement of State of Mississippi

The Gulf Opportunity Zone Act provides Mississippi with additional tax credits for 2006, 2007, and 2008. These additional tax credits will provide much needed housing for Gulf Coast residents in the form of affordable rental units.

The GO Zone legislation provides that properties financed by tax credits placed in service in the calendar years 2006, 2007, and 2008 will be treated as Difficult to Develop Areas (DDA), which provides a 30% boost in eligible basis for the properties. This boost in eligible basis provided by the DDA designation helps developers overcome increases in costs associated with development in the areas most affected by Hurricane Katrina.

The DDA designation for tax credit properties on Mississippi's Gulf Coast helps offset the increased costs of insurance, labor, and materials. Many insurance issues still wait to be resolved, and demand for labor outpaces the supply, thereby increasing the cost.

The DDA designation as written in the GO Zone legislation is set to expire on December 31, 2008. It generally takes a developer 18 to 24 months from allocation of tax credits to placed in service status under ideal conditions. The Go Zone deadline threatens to repeal the DDA status for any project not placed in service by December 31, 2008, thereby increasing the overall cost of development and reducing the affordability of the individual units. For developments receiving tax credits in 2007 and 2008, the fastest development timeline of 18 to 24 months still places the placed in service date outside the timeframe provided by the GO Zone legislation.

In addition, there is one additional item that I would place as the highest priority to be addressed immediately so that the investment in affordable housing in Mississippi is not curtailed:

To alleviate the pressures, I ask you to extend until December 31, 2010 the deadline for placing Low Income Housing Tax Credit developments in service, as well as the deadline for benefits to these housing developments available through the GO Zone LIHTC Basis Boost.

This additional time would allow developers to overcome the increases in development cost while providing ample time to work with government agencies and local communities to provide affordable housing to areas of greatest need.

Statement of The National Association of Home Builders

The National Association of Home Builders (NAHB) and its 235,000 members appreciate the opportunity to comment on "Katrina Redevelopment Tax Issues." The tax resources allocated by Congress as part of the *Gulf Opportunity Zone Act of 2005 (the Act)* are crucial to redeveloping housing on the gulf coast. The additional Low Income Housing Tax Credit (LIHTC) allocations are especially critical for the construction of affordable rental housing.

The Act established a special allocation of LIHTCs for the Gulf Opportunity Zone (GO Zone), with each State allocation equal to $18 multiplied by the state's population residing in the GO Zone. The cap applies for years 2006, 2007, and 2008. Further, a credit amount equal to $3.5 million for 2006 is available to the states of Texas and Florida. Qualified basis for all LIHTCs (including the regular LIHTC allocation) in the GO Zone is determined by applying the 30 percent basis boost. However, there is no carry forward of unused credits from year to year.

Congress established a December 31, 2008 placed-in-service deadline for utilizing the additional GO Zone LIHTC resources to ensure that affordable housing is developed as quickly as possible. However, in the eighteen months since the hurricanes it has become apparent that the development process in the gulf coast region will take much longer than under normal circumstances. Indeed, the unprecedented devastation from the hurricanes has created significant obstacles for builders and greatly extended the time it takes to bring an affordable housing property from inception to being occupied. These obstacles are so significant that many LIHTC developers are in jeopardy of missing these statutory deadlines and losing their tax credits. The cost of this will be measured in terms of the loss of affordable housing desperately needed in the region.

In the immediate term following the hurricanes it was unknown as to how the breadth and depth of the damage would impact the recovery and redevelopment process. Now, with the benefit of on-the-ground experience, it is appropriate to consider an extension of the placed-in-service deadlines for LIHTC-financed properties to accommodate for the unusual development environment in the GO Zone. Given the challenges associated with reconstruction, it will be extremely difficult for developers to meet the current statutory deadlines for these tax incentives.

Factors Impacting Development of Housing on the Gulf Coast

There are many factors that have acted to slow down the development process in the GO Zone. The five factors summarized below are not an exhaustive list, but are among the most significant.

Availability of Predevelopment and Engineering Professionals—NAHB members report a scarcity of predevelopment and engineering professionals in the GO Zone which in turn impacts otherwise reasonable development timelines. There is a significant backlog of work for civil and soil engineers, surveyors, environmental analysts, etc in the GO Zone. This backlog is in part the result of a workforce depleted by the departure of residents who lost homes in the hurricanes and have since left the region. Builders attempt to work around this issue by employing third parties from outside the region, but this comes with additional cost, delays in their mobilization and unfamiliarity by third-party professionals with the local physical and bureaucratic landscapes.

A second factor contributing to a scarcity of predevelopment professionals for housing redevelopment is the sheer amount of infrastructure repair needed in Louisiana, which absorbs a limited resource of skilled professionals. Federal and state governments initiated this repair work very soon after the hurricanes and ahead of reconstruction of affordable housing. Many firms are committed for weeks or even months at a time and are precluded from being able to accept additional work now for housing construction.

Availability of Construction Labor—The same factors creating delays in the availability of predevelopment and engineering professionals apply to construction labor. Amplifying this situation is the fact that the majority of residents who left southeastern Louisiana were employed in the labor and service industries. Further, the labor shortage for construction will be compounded even further as government-subsidized residential repair and construction projects cycle into the actual rehabilitation and building phase. Numerous LIHTC projects are entering their construction phase simultaneously and all will compete for the same limited number of laborers.

Availability and Cost of Construction Materials—Again, affordable residential construction demand is about to hit a crescendo, which means shortages and higher costs for building materials. Costs also are exceeding anticipated levels due to astronomical flood and wind insurance premiums forcing developers to seek out construction methods and materials that are outside their normal practices. There is both a learning curve-based delay associated with this shift, and material-related cost inflation due to establishing economies of scale from suppliers. Material costs that are high on a national level—brick and fuel, for example—contribute to rising expense as well.

Insurance—Builders report a dearth of available insurance in the GO Zone and a drastic escalation in premiums (by as much as 400 percent in some cases) for insurance that can be secured for both flood and wind risks. Housing projects cannot move forward without insurance coverage and finding a provider slows down the de-

velopment process. Also, the premiums required are most often not what were anticipated at the time many properties were originally underwritten. As a result, these properties cannot financially sustain the additional cost. In order to bring the insurance cost down as well as to meet more stringent FEMA requirements, many projects must be redrawn with higher elevations and the addition of other mitigation elements such as stronger wind-resistant windows or structural components. Drawing up new architectural plans sets back every aspect of development that follows from engineering evaluations to local permitting.

Local Regulatory Delays—Many local jurisdictions in the GO Zone are significantly understaffed in inspectors, plan reviewers and other permitting professionals to meet demand. Inspectors brought in from outside the region are helping to meet the shortage, but struggles remain. In addition, the high level of redevelopment activity has set back the review process so much that it can take months to even secure a design review hearing with local planning entities.

Conclusion

For all of the factors noted above, NAHB would recommend an extension in the placed-in-service deadlines for properties in the GO Zone financed through LIHTCs. As currently written, these placed-in-service requirements could result in many of the tax credits going unused because properties cannot be completed within the time limits set by law.

Thank you for the opportunity to submit the views of NAHB on these important issues. We look forward to working with the committee to ensure that resources allocated by the Congress are used most efficiently and effectively to aid in the recovery on the gulf coast region. While this statement focuses on the Katrina redevelopment tax issues, NAHB also looks forward to working with the committee as it considers other key matters related to the recovery of the impacted region. We stand ready to work with Congress and the federal government in delivering safe, decent, affordable housing in the Gulf Coast.